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Fiscal Survey of the States

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Fiscal Survey of the States

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EXECUTIVE SUMMARY

The economic schism that exists between states with thriving economies and those with deteriorating economies, continues to be reflected in their fiscal outlooks. Exceptionally good state fiscal conditions are predominant in the New England and Mid-Atlantic regions, while energy-reliant state economies are devastated by the plunge in oil prices. Farm states and states dependent on the timber and textile industries also continue to be battered by poor economic times. These regional recessions forced eighteen states to cut enacted budgets in fiscal 1986, and only weeks into fiscal 1987, nine states have already taken the scalpel to their budgets to head-off impending deficits. This amount of budget slashing is rare during non-recession years.

Major findings of this survey include:

- Fiscal 1986 general fund budgets grew from the prior year by 9.5 percent, representing 4.3 percent real growth in spending. Fiscal 1987 budget growth is projected to be only 5.5 percent, or 1.5 percent real growth.
- Revenue growth for fiscal 1986 is estimated to be 5.5 percent, which is considerably lower than estimated expenditures. Fiscal 1987 revenue growth is projected to be 5.9 percent.
- Year-end general fund balances for fiscal 1986 and fiscal 1987 are projected to be $5 billion and $3.3 billion, respectively. This represents 2.5 percent of expenditures for fiscal 1986 and 1.6 percent for fiscal 1987. These ending balances are razor thin and will not cushion any potential errors in estimating revenue or expenditures or any cutbacks in federal programs.
- Twenty-nine states currently have budget stabilization funds. Excluding those states that merge budget stabilization funds with their ending balances, the amount contained in these funds totals $1.5 billion for fiscal 1986 and $1.7 billion for fiscal 1987. This represents 0.8 percent of expenditures, for each year.
- Sixteen states raised taxes in 1986, while five states decreased them. The net change in aggregate tax revenue will be negligible.
- The majority of states passed along the Gramm-Rudman-Hollings cut of 4.3 percent onto their agencies without supplementing state dollars for lost federal dollars. Those few states that did supplement the cuts did so for human resource programs.

I. STATE EXPENDITURE TRENDS

Annual Growth Rate. Fiscal 1986 expenditures are estimated to be 9.5 percent above the previous fiscal year. The real annual expenditure increase is 4.3 percent (adjusted for inflation). Expenditures for fiscal 1987 are projected to increase only 5.5 percent, which translates into 1.5 percent of real budget growth.

Growth for fiscal 1987 is very modest, reflecting the projected slow growth in the national economy. Since fiscal 1979, the average annual real growth rate in state spending has been 1.5 percent, with the peak occurring in fiscal 1981 at 6.1 percent and the trough coming in fiscal 1983 when spending actually decreased 6.3 percent. Table 1 compares state government spending with federal spending. Nominal federal expenditures are projected to increase 3.6 percent and 1.5 percent in fiscal 1986 and 1987, respectively, although these projections may change. The long-term real spending growth rate between fiscal 1979 and 1987 is 2.7 percent, significantly higher than that of the fifty states. States are balancing budgets in spite of reduced grants-in-aid from the federal government.

However, expenditure growth rates vary significantly from state to state (see Table 2). In fiscal 1986, five states—Alaska, Montana, Nevada, Oregon and Wyoming—have spending levels lower than the previous year's budget while in fiscal 1987 eight states—Alabama, Alaska, Louisiana, Mississippi, Nebraska, Oklahoma, Texas, and West Virginia—have proposed spending less than nominal 1986 levels. Several of these reductions are substantial, which indicates severe fiscal stress. For example, proposed fiscal 1987 spending is 16 percent lower in Oklahoma and 6.2 percent lower in Alabama. In fiscal 1986, eighteen states recorded expenditure increases of more than 10 percent, but that number is projected to fall to eight in fiscal 1987.

If inflation is taken into account, seventeen states have lower spending levels in fiscal 1986 than in fiscal 1985, and that number rises to twenty-two states where fiscal 1987 spending is lower than fiscal 1986.

Table 3 reflects state spending patterns on a regional basis. Most states that have lower-than-average growth rates are located in the Southeast and Southwest. Those regions with higher-than-average rates are in New England, the Mideast, and the Southeast. The Southeastern region is split into both groups. Generally, Southeastern states located on the Atlantic coast have higher spending rates than the other states in that region, where rates are low.

Budget Cuts and Expenditure Delays. One of the most important budget developments last fiscal year was the extraordinarily high number of states that cut budgets.

Table 1
COMPARISON OF STATE AND FEDERAL NOMINAL AND REAL ANNUAL BUDGET INCREASES FISCAL YEARS, 1979–1987

	State		*Federal*	
Fiscal Year	*Nominal Increase*	*Real Increase*	*Nominal Increase*	*Real Increase*
1987	5.5% est.	1.5% est.	1.5%	−1.6%
1986	9.5 est.	4.3 est.	3.6	1.2
1985	10.2	4.6	11.1	7.4
1984	8.0	3.3	5.4	2.3
1983	−0.7	−6.3	8.4	4.7
1982	6.4	−1.1	10.0	1.5
1981	16.3	6.1	14.8	2.6
1980	10.1	−0.5	17.4	4.6
1979	10.1	1.5	9.8	1.9
1979–87 average	8.4%	1.5%	9.1%	2.7%

NOTE: The state and local government implicit price deflator was used for state expenditures in determining real changes, and the federal government implicit price deflator was used for federal expenditures. Real increase figures do not take into account population growth.

Table 2
ANNUAL GENERAL FUND EXPENDITURE INCREASES

	Nominal Change		*Real Change*	
Budget Growth Rate	*Fiscal 1986 (budgeted)*	*Fiscal 1987 (appropriated)*	*Fiscal 1986 (budgeted)*	*Fiscal 1987 (appropriated)*
Less than 0%	5	8	17	22
0–5%	12	17	17	19
5–10%	15	17	11	8
Over 10%	18	8	5	1
Average Growth Rate*	9.5%	5.5%	4.3%	1.5%

*Excludes Alaska.

NOTE: The state and local government implicit price deflator was used to change nominal dollars into real dollars. Real increase figures do not take into account population growth.

Table 3
PROJECTED ANNUAL GENERAL FUND EXPENDITURE INCREASES, BY REGION, FISCAL 1987
(in nominal dollars)

Region	*Percent Annual Growth*			
	Less than 0%	*0%–5%*	*5%–10%*	*Over 10%*
New England		1	4	1
Mideast		2	3	
Great Lakes		3	1	1
Plains		4	3	
Southeast	4	1	2	5
Southwest	2	1	1	
Rocky Mountain	1	3	1	
Far West	1	2	2	1

During fiscal 1986, eighteen states cut their operating budgets that had been approved by their legislatures to avoid ending the year in deficit. It is very unusual for so many states to cut budgets in a non-recession year. For comparison purposes, only three states cut their fiscal 1985 budgets; during the most recent recession, twenty-three states cut budgets in fiscal 1982 and thirty-nine states in fiscal 1983.

All but five states that cut budgets last year lay west of the Mississippi. The smallest cut occurred in Vermont where the Governor cut 0.6 percent to save $2.5 million. The largest cut occurred in Texas where the Governor asked agencies to hold back expenditures 13 percent for both years of the biennium, for a total cut of $1.3 billion. Mississippi and Utah were forced to cut their expenditures twice during the year, while Arkansas enacted four budget reductions during fiscal 1986.

Eight of these states either exempted education budgets from the cutbacks or reduced education less than other budget functions. Other budget areas protected partially from the scalpel are welfare, corrections, and mental health. Table 4 summarizes fiscal 1986 budget reductions.

Although fiscal 1987 has just begun for most states, already nine states—Alaska, Arizona, Minnesota, Montana, New Mexico, North Dakota, Texas, Wisconsin, and Wyoming—have cut their budgets since the legislature passed, and the Governor signed, the appropriations act into law. Four of these states have biennial budgets, whereby fiscal 1986 expenditures were also cut at the same time. In Wyoming's case, the Governor restricted spending authority for fiscal 1987 and 1988 by 8 percent, but funds may be reinstated if the price of oil rises and increases state revenues. Both New Mexico and Montana held emergency special sessions in June to head-off impending deficits, and each cut the budget and raised taxes to resolve the problem. Table 5 provides details on fiscal 1987 budget cuts.

Another way to reduce current year expenditures is to postpone spending for future years where feasible. Six states deferred fiscal 1986 expenditures into later years. These are:

Idaho	An $11 million payment to public schools was transferred in July rather than in May.
Iowa	Payment dates were changed so that goods had to be received prior to June 30, 1986, to be paid from fiscal year funds.
Louisiana	Equipment purchases and minor repairs were postponed.

Table 4
STATE BUDGET CUTS ADOPTED IN THE FISCAL 1986 BUDGET

State	Amount (in millions)	Cut as % of General Fund Expenditure	Action Taken by	Selective or Across-the-Board	Date Enacted	Program Notes
Alabama	$ 89.0	5.0%	Governor	Across-the-Board	7/86	Cuts made to the Education Trust Fund, not the General Fund. Have three months in fiscal year to find savings.
Arkansas	60.3	4.3	Governor	Selective	11/85 & 2/86	Cuts made according to original budget priorities.
	9.3	.6				
	9.9	.7			5/85	
					6/86	Total cut = 6%
Colorado	28.2	1.5	Legislature	Selective	5/86	
Hawaii	32.9	2.0	Governor	Selective	7/85	Fixed costs: e.g., retirement and welfare benefits.
Idaho	7.6	1.3	Legislature	Selective	2/86	Public schools and welfare programs exempt. Some others cut between 1% and 4.5%.
Iowa	80.7	3.85	Governor	Across-the-Board	10/85	
Louisiana	79.0	1.8	Governor	Selective	3/86	
Minnesota	50.2 (FY86)	1.0	Both	Both		Debt service; welfare programs education cut less.
Mississippi	72.9	4.67	Fiscal Mgmt. Board	Both	11/85 1/86	Education and Mental Health cut less.
Montana	7.0	2.0	Governor	Across-the-Board	1/86	Basic school aid; legislative and judicial budgets.
North Dakota	45.0* (biennium)	4.0	Governor	Across-the-Board	3/86	
Nebraska	17.0	2.0	Legislature	Both	11/85	Public Safety and Human Services cut less.
Oklahoma	46.0	2.0	Governor	Across-the-Board	11/85	Governor asked agencies to cut-back as much as possible, since next year revenues will be down 16%.
South Carolina	46.0	2.0	Governor	Across-the-Board	1/86	Corrections cut 1.5%; Mental Health and Tax Commission exempted.
Texas	1,309.5* (biennium)	13.0	Governor	Selective	2/86	K–12 education, highways, and retirement systems. Much smaller cuts in Corrections and Mental Health and Mental Retardation.

Table 4 (continued)
STATE BUDGET CUTS ADOPTED IN THE FISCAL 1986 BUDGET

State	Amount (in millions)	Cut as % of General Fund Expenditure	Action Taken by	Selective or Across-the-Board	Date Enacted	Program Notes
Utah	13.2	1.0	Legislature	Selective	2/86	Schools exempted in second cut.
	5.3	.4	Governor	Selective	5/86	
Vermont	2.5	0.6	Governor	Selective	11/86	Schools, debt service, welfare benefits, retirement benefits, and emergency funds.
Wisconsin	230.0* (biennium)	2.3	Legislature	Selective	2/86	State operations were cut about 5.8% for FY87 and aid to local governments and individuals cut less or exempted.

*These figures are for both fiscal years 1986 and 1987.

Oklahoma	Some agencies may postpone expenditures as a short-term funding solution.
Oregon	Human resource agencies are delaying some planned expenditures as a part of a department-wide rebalancing of the budget.
Utah	Delayed construction of a women's prison and performing arts building at the University of Utah.

State Employees. The growth rate of the state workforce and the annual compensation package for state employees are often key indicators in determining the fiscal health of the states. Clearly, many services provided by state government are labor intensive and represent a significant share of total state costs.

For the entire fiscal 1986, the forty-four states that responded to this question reported that state workforces grew an average of 0.9 percent. These states reported that total full-time equivalent employees increased from 1,771,137 to 1,787,870, excluding elementary, secondary, and higher education employees. The Census Bureau estimates annual population growth at 0.9 percent, which means that the growth in aggregate state workforces matches population increases.

This aggregate growth rate masks the differences existing between states. For example, there are eleven states in which actual declines occurred. These states are: California, Louisiana, Minnesota, Mississippi, Nebraska, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, and Utah. Taking into consideration population growth, another six states lost ground in the per capita state employee ratio since their growth rate was less than 0.9 percent. (See Appendix Table A-8 for state-specific information.)

Despite severe fiscal stress in some states, particularly in the Southwest, Governors have thus far averted large state employee layoffs. However, some states may have to lay off employees as the year progresses. Only two states reported minor layoffs. In Pennsylvania, the Department of Transportation laid off 371 highway maintenance workers (but most were offered other jobs) and the Department of Public Welfare furloughed 183 employees in state mental hospitals due to lower patient loads. Due to a budget cut in Wisconsin, approximately 400 state positions were eliminated and about

Table 5
STATE BUDGET CUTS ADOPTED IN THE FISCAL 1987 BUDGET

State	Amount (in millions)	Cut as % of General Fund Expenditure	Action Taken by	Selective or Across-the-Board	Date Enacted	Exempted Program/Notes
Alaska	$ 550.0	13.0%	Governor	Across-the-Board	7/86	Cash assistance to individual exempted; aid to local government and school districts cut 10%; $300 million cut from capital budget.
Arizona	81.0	6.0	Governor	Both	7/86	Includes $8 million in delayed capital expenditures. Excludes elected offices, some health and income maintenance programs, and education K–12. Total general fund was cut 3.2%.
Minnesota	115.5	2.2	Both	Both	4/86	Debt service; welfare programs; education cut less.
Montana	45.0	5.0	Legislature	Both	7/86	Includes 3% cut for education foundation aid and elimination of state employee COLAs.
New Mexico	26.1	2.0	Legislature	Across-the-Board	6/86	
North Dakota	45.0* (biennium)	4.0	Governor	Across-the-Board	3/86	
Texas	1300.0* (biennium)	13.0	Governor	Selective	2/86	K–12 education, highways, and retirement systems. Much smaller cuts in corrections and mental health and mental retardation.
Wisconsin	230.0* (biennium)	2.3	Legislature	Selective	2/86	State operations were cut about 5.8% and aid to local governments and individuals cut less or exempted.
Wyoming	63.0* (biennium)	8.0	Governor	Both	5/86	Restricted budget authority to spend; governor cannot cut appropriations.

*These figures are for two fiscal years.

fifty people were laid off during fiscal 1987. Several states have reported some layoffs due to federal fund cuts. These will be discussed in Section V of this report.

Rather than choosing layoffs, state lawmakers have opted for hiring freezes. Eleven states are relying on this method to trim the size of the state workforce. They are:

Arkansas	There is an indefinite freeze on hiring for positions that are non-essential.
Illinois	A hiring freeze went into effect in November 1985 and has no specific expiration date.
Iowa	Since 1981, any position filled must have approval of the Department of Management.
Louisiana	Between July 1985 and June 1986, the state ended 4,000 positions through attrition. Agencies were allowed, with the approval of the commissioner of administration, to fill one out of four vacant positions.
Michigan	Between October 1985 and September 1986, the Governor issued employment targets for all agencies. Four agencies were not making sufficient progress in meeting the target, so a hiring freeze was established for the remainder of the fiscal year for these agencies.
New Mexico	As of June 1986, the state is hiring only for critical positions with the joint review of all requests by the central budget and personnel offices.
North Carolina	Effective January 1986, each agency request to fill a position is being reviewed by the Office of the State Budget.
Pennsylvania	Since December 1982, all agency positions filled must be reviewed.
Rhode Island	Effective February 1985, all vacancies and new positions require the approval of a special personnel committee. Fiscal 1986 and 1987 budget plans call for a state work-force reduction of 10 percent without layoffs.
Texas	Beginning in February 1986, a hiring freeze is in force, but it excludes court-ordered programs and most essential programs.
Wyoming	A hiring freeze is in effect from July 1985 to July 1988.

In addition to cost savings attributed to restricted hiring practices, New Mexico and Texas have also instituted travel freezes for state employees.

Oklahoma, a state that is particularly hard-hit due to the fall in oil prices, has begun furloughing employees. Human service agency employees making $30,000 or more will have to take twenty-one days off with no pay over the next fourteen months. Those making less will be required to take fourteen days off during that time. Alaska, which has been devastated by the fall of oil prices, has asked state employees to take a 10 percent cut in pay. Negotiations are in progress and options such as a shortened workweek or lay-offs are being pursued, but budgeted personnel services must find the necessary savings. Montana has asked employees to renegotiate a pay raise or face a lay-off of 600 positions.

Salary compensation packages (excluding employees of schools and educational institutions) for fiscal 1987 are very modest, which would be expected since lower inflation has significantly dampened price increases. Virtually, all across-the-board state employee salary increases, excluding any merit, step, fringe benefit, or equity adjustment, are 5 percent or lower. The major exception is in Ohio, where employees are likely to receive a 7.6 percent increase. However, the raise will be the first increase since March 1984. Thirty-seven states authorized across-the-board salary adjustments of 3 percent to 5 percent. However, seven states—Alabama, Alaska, Idaho, Louisiana, Mississippi, Oklahoma, and Utah—are not awarding increases for fiscal 1987, and three states—Colorado, North Dakota, and Wyoming—are considering delaying the salary increase implementation date to accrue cost savings. Texas will allow salary increases only if agencies have lapsed funds from the prior year. Some states could not provide the requested information since employee negotiations are still pending. (See Appendix Table A-9 for more state information.)

State Tax and Expenditure Limitations. The tax revolt sparked by passage of California's Proposition 13 in 1978 led eighteen states to adopt state tax or expenditure limitations. In addition, forty-nine states have balanced budget requirements. Typically, these limitations operate by constraining the annual spending increase allowed for state government budgets. The spending ceilings are usually determined by such factors as the annual increase in the consumer price index, the increase in state personal income, and the change in population.

Thus far, few of these limitations have affected the spending habits of state government, especially since the recession had depressed state spending several years ago. Now, however, several states are approaching their spending limits. These are:

California	Appropriations are estimated to be $95 million lower than the fiscal 1987 limit.
Idaho	The state is close to the limit of 5.33 percent of state personal income.
Rhode Island	The budget grew 5.9 percent, and the limit is 5.5 percent (the limit in Rhode Island is non-binding).

Several states have tax and expenditure limitations pending—reminding lawmakers that the tax revolt is still very much alive.

Currently, these states are:

Alaska	The current limit, which is tied to population and inflation, expires this year and must be approved again by popular vote in November. The Governor is proposing an amended constitutional version of the limit, which would place the ceiling at 115 percent of the prior year's appropriation.
Arizona	A citizen's initiative would cap residential property taxes at one-half of 1 percent of assessed value and roll-back property taxes to 1984 levels.
California	There is an iniative to "correct" a Proposition 13 court decision that now does not require a two-thirds vote of the people for a tax increase if the revenue goes for specific government purposes. This measure has been certified for the November ballot.
Colorado	A citizens' initiative is pending that would require all state and local government tax increases to be approved by the voters.

Massachusetts	A revenue limitation based on growth in annual wages in the state is currently pending in the legislature and is likely to pass.
Montana	Two citizen initiatives will be on the November ballot. One would limit property taxes to 1985 rates. The other would eliminate all real and personal property taxes without allowing state government to enact a sales tax or increase the income tax.
Nevada	The state has a non-binding limit and a legislative interim committee is currently studying a possible revision.

Aid to Local Governments. At the time of publication, Congress was considering and was expected to pass substantial reductions in grants-in-aid to local governments in the fiscal 1987 budget. Mass transit programs, community development block grants, urban development action grants, Economic Development Administration grants, housing programs, and others are expected to be cut from last year's level. General revenue sharing for local governments, funded at $4 billion in fiscal 1986, likely will be terminated. These federal budget cuts will increase greatly the pressure for states to assist the fiscal needs of local government. They can do that in two ways: appropriate more state dollars for local governments to spend or empower them with greater taxing authority.

On the expenditure side, seven states have reported new appropriations to local governments in fiscal 1987. Connecticut appropriated $41 million as an unrestricted grant to offset federal reductions, while North Carolina will appropriate $60 million for fiscal 1986 and 1987 for local governments to use for water and sewer projects. Hawaii and Maryland increased aid by $12 million and $23 million, respectively. In 1985, Rhode Island increased general state aid, and provided for a five-year phase-in of increased school aid, partly in anticipation of federal cuts. Pennsylvania authorized $38.6 million in supplemental aid to local school districts and a $10.9 million increase in state aid for the Human Services Development Fund, a block grant administered by counties. Massachusetts appropriated $60 million of the expected loss of $73 million in general revenue sharing for cities and towns.

On the revenue side, eleven states granted additional taxing authority or a larger share of a state-dedicated tax for local governments. California will allow San Diego County an additional 0.5 percent sales tax. Minnesota gave Minneapolis authority for a 0.5 percent sales tax, a 3 percent hotel/motel tax, and a 3 percent tax on restaurant meals and drinks, which will be used for a new convention center. Both Florida and Wyoming increased their local lodging tax. Nebraska authorized incorporated municipalities to increase the local sales tax from 1 percent to 1.5 percent; New Mexico gave both municipalities and counties new sales tax powers; and Ohio allowed counties an additional 0.5 percent sales tax, a 4.5-cent-a-pack cigarette tax, and a limited alcohol excise tax. North Carolina raised the sales tax ceiling 0.5 percent for local governments. Vermont is giving the city of Burlington authority to impose a gross receipts tax on business. Kentucky modified the coal severance tax state-local revenue sharing formula to give local governments in coal-producing areas additional funds. Pennsylvania closed some commercial loopholes in the realty transfer tax to generate an additional $25 million for local government. Indiana has loosened restrictions on revenue raised by county income taxes, allowing counties to use some of the revenue for general operating expenses, rather than mandating all of the revenue for property tax relief.

II. REVENUE TRENDS

Annual Revenue Growth. Although fiscal 1986 general fund expenditure growth was estimated to be 9.5 percent, general fund revenue is projected to grow a modest 5.5 percent compared to the prior year. The mismatch between expenditures and revenues can occur for a short time without causing a deficit because states can spend their carry-over balances. However, appropriation growth for fiscal 1987 is scaled down to only 5.5 percent, with revenues projected to increase by 5.9 percent.

Both revenue figures are significantly lower compared to past years. For the most part, this reflects the slowing of the national economy and the reduction in inflation, which results in less tax revenue flowing into state treasuries. The real gross national product (GNP) grew by 6.4 percent in 1984 and only 2.7 percent in 1985. Second quarter GNP data for 1986 (the latest available) shows the economy growing at a 1.1 percent rate, the weakest since late 1982. Many economists predict GNP for this year to be in the 2 to 3 percent range. Of course, these figures have important consequences for states.

Tax Changes. Compared to prior years, tax changes during the 1986 legislative session were minimal. Sixteen states raised either sales, income, or major excise taxes, while only five states lowered them. This does not take into account three states—New York, Ohio, and Rhode Island—that passed multiyear personal income tax reductions last year. Several tax measures are still pending. Since the tax decreases occurred in large states that collect substantially more in revenue than the smaller states that raised taxes this year, the net increase in taxes will be negligible.

Sales Taxes. Only four states raised sales tax rates this year, and no state lowered them. These increases occurred in Kansas, where the sales tax was increased from 3 percent to 4 percent; Idaho, with a temporary sales tax increase from 4 percent to 5 percent; New Mexico, which raised its 3.75 percent tax to 4.75 percent; and Nebraska, which will raise its tax from 3.5 percent to 4.0 percent in January 1987. Last year, Nebraska lawmakers approved a 1-cent sales tax increase to take effect January 1987 and to be earmarked for schools. The increase will be on the November ballot. The sales tax may then rise to 5 percent.

Florida is also making a significant tax change by moderately expanding the sales tax base this year, and agreeing to sunset all sales tax exemptions for services, including medical services, effective July 1987. If the legislature does not reenact some of these sales tax exemptions next year, sales tax revenues will increase by about

$1 billion. Maine broadened its sales tax base slightly, while Connecticut added some new sales tax exemptions. Louisiana will temporarily levy a 1 percent sales tax on food, drug, and utility service purchases. These items were previously exempt. In a special session, West Virginia approved a referendum for the November ballot that would raise the sales tax from 5 percent to 6 percent and issue bonds for highway purposes.

Income Taxes. New Mexico was the only state to significantly increase the personal income tax this year by changing both the tax rates and base. In addition, New Mexico and Colorado increased the corporate income tax this year.

Most tax decreases occurred in the Northeast. Connecticut reduced its tax on interest and capital gains by 1 percent; Delaware cut its personal income tax by 9 percent; Michigan cut its flat rate personal income tax from 5.1 percent to 4.6 percent of taxable income; and Vermont decreased its personal income tax from 26.5 percent to 24 percent of federal tax liability. Pennsylvania decreased both the personal and corporate income tax from flat rates of 2.2 percent to 2.1 percent, and 9.5 percent to 8.5 percent of taxable income, respectively.

Still pending is the possible elimination of a personal income tax surcharge in Massachusetts, which was first instituted in the 1970s. Idaho, New Hampshire, and Utah have all agreed to apportion corporate profits on a "water's edge" or domestic basis, rather than on worldwide earnings. California is considering pulling back to water's edge apportionment. Only Alaska, California, Montana, and North Dakota still use worldwide corporate apportionment.

Fuel Taxes. Motor fuel tax increases were popular this year. Tennessee raised the gasoline tax 4 cents, to 16 cents a gallon, and increased the diesel fuel tax by 2 cents a gallon. Kentucky increased the motor fuel tax from 10 cents to 15 cents a gallon. Colorado hiked its gasoline tax from 12 cents to 18 cents a gallon, and its diesel tax from 13 cents to 20.5 cents a gallon. Virginia eliminated its 3 percent wholesale gas tax, but then raised the unit gasoline tax from 11 cents to 15 cents a gallon. This September, the Virginia Governor will ask the legislature to considering new funding mechanisms for highways. North Carolina raised the tax from 12 cents a gallon to 14 cents, and added a 3 percent tax on the average wholesale price. Montana raised the gasoline tax from 15 cents a gallon to 17 cents during a special session of the legislature. Hawaii reduced its diesel fuel tax from 11 cents to 10 cents a gallon.

Other Excise Taxes. Five states increased cigarette tax rates: Colorado, from 15 to 20 cents a pack; Florida, from 21 to 24 cents a pack; New Mexico, from 12 to 15 cents a pack; Rhode Island, from 23.4 to 25 cents a pack; and Washington, from 23 to 31 cents a pack. Maine doubled its alcohol excise tax on beer, wine, and spirits. Both Iowa and Hawaii changed the method of taxing alcoholic beverages, but no real change is expected in revenue collections.

Insurance. Several states, including Alaska, Maine, Nebraska, Washington, and Wyoming, revamped their taxes on insurance premiums so in-state insurance companies pay the same rates as out-of-state insurance companies.

Lotteries. Capturing lottery revenues is an issue in numerous states this year. Eleven states are now considering lottery legislative referendums or citizens' initiatives, many of which are likely to be on the November 1986 ballot. These are: Florida, Idaho, Indiana, Kansas, Louisiana, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, and Wisconsin.

Tax Amnesty. Iowa, Michigan, Mississippi, Rhode Island, and West Virginia enacted tax amnesty programs this year. This makes twenty-three states that adopted such programs.

Short-Term Borrowing. Two states—Idaho and Iowa—issued tax anticipation notes in fiscal 1986 to enable timely payment of obligations and to avert a deficit. Other states borrow for cash flow purposes.

III. YEAR-END GENERAL FUND BALANCES

In fiscal 1986 and 1987, states are budgeting for very small year-end balances, allowing very little leeway for any revenue or estimating errors. Many more states will be in a precarious situation if the national economy experiences a sluggish performance. For fiscal 1986, the estimated year-end general fund aggregate balance for the states was $5 billion, which equals 2.5 percent of expenditures. Final fiscal 1986 figures will not be available for several months until state auditors officially close the fiscal year. The fiscal 1987 ending balance is projected to decrease to $3.3 billion, or 1.6 percent of total state general fund spending. Five percent is the ending balance benchmark used by Wall Street bond analysts to determine the fiscal condition of a state. This 5 percent reserve acts as a cushion against unexpected expenditure and revenue fluctuations. Clearly, states will not meet this fiscal target.

Table 6 provides the historical background for aggregate state year-end balances since fiscal 1978. The high point in ending balances came in fiscal 1980, when balances equaled 9 percent of expenditures. The low point occurred in fiscal 1983, when balances dipped to only 1.3 percent of spending. Recent ending balances have been shrinking compared to those of past years. (Appendix Table A-4 shows state-specific ending balances over this ten-year time span.)

National figures often mask the differences existing between states. This is particularly true in the case of three states—Colorado, Louisiana, and South Carolina—where budget officials reported ending fiscal 1986 in deficit. Since these states must end the fiscal year in balance, Colorado and South Carolina will rely on other state funds to cover the deficit, while Louisiana plans to have appropriation reversions to help balance their budget. A fiscal 1987 deficit is projected for North Dakota, but state officials there expect to correct the deficit either in an upcoming special or regular legislative session. Nebraska and Louisiana also are currently projecting a fiscal 1987 budget deficit. Nine states have already cut enacted fiscal 1987 budgets to ensure a positive balance for next June 30.

Currently, two states—Alaska and Texas—are in the process of rebalancing their fiscal 1987 budgets. At publication time, Alaska had a $300 million budget gap, despite recent budget cuts. Texas will be meeting in special session in August to resolve a $2.9 billion biennial revenue shortfall. That figure does not take into account the $1.3 billion budget reduction enacted earlier.

The size of the ending balance varies greatly among the states. For fiscal 1986, twenty states expect an ending balance of 1 percent or less, and fourteen states will have a balance of more than 5 percent (see Table 7). For the following fiscal year,

Table 6
SIZE OF GENERAL FUND YEAR-END BALANCES, FISCAL 1978 TO 1987*

Fiscal Year	*Year-End Balance ($ in Billions)*	*Balance as a Percent of Expenditures*
1987 est.	$ 3.3	1.6%
1986 est	5.0	2.5
1985	8.0	4.3
1984	5.6	3.3
1983	2.0	1.3
1982	4.5	3.0
1981	6.5	4.4
1980	11.8	9.0
1979	11.2	8.7
1978	8.9	8.6

*Does not include balances from budget stabilization funds.

Table 7
GENERAL FUND YEAR-END BALANCES AS A PERCENTAGE OF EXPENDITURES

	Fiscal 1986 (budgeted) (number of states)	*Fiscal 1987 (appropriated) (number of states)*
1% or less	20	29
1%–3%	10	9
3%–5%	6	3
Over 5%	14	9
Average percentage	2.5%	1.6%

twenty-nine states will see their balances dwindle to 1 percent or less, and only nine states expect to have balances of more than 5 percent. For both years, an unusually high number of states are expected to have very thin margins between revenues and expenditures.

Budget Stabilization Funds. In recent years, twenty-nine states have adopted budget stabilization or "rainy day" funds to help buffer state finances from the sharp fiscal disruptions routinely caused by the business cycle. Maryland adopted such a fund this year and Massachusetts is currently considering one. Rather than cut budgets and raise taxes during the middle of a fiscal year, states can theoretically use these special reserves during an economic emergency. However, for this to work, states must accumulate sufficient funds during good economic times.

States have gradually built up these reserves, as seen by these statistics:

- in fiscal 1983, when only eleven states established these special funds, $0.3 billion was allotted for budget stabilization funds, equaling 0.2 percent of expenditures;
- in fiscal 1986, there is $1.5 billion in these funds or 0.8 percent; and
- in fiscal 1987, the amount seems to have stabilized at $1.7 billion or 0.8 percent.

Only a handful of states have sufficient revenues in budget stabilization funds to cover revenue losses typically attributed to a recession. In fact, five states that established stabilization accounts allotted no money to them in fiscal 1987. These states are: Idaho, Missouri, Oklahoma, Washington, and Wisconsin. Budget stabilization funds that total 5 percent or more could be instrumental in averting cutbacks attributed to a recession, but only Connecticut, Michigan, and Wyoming have such a safety margin.

Budget stabilization funds should not be combined with ending balances because they serve different purposes: the ending balance provides a hedge against normal revenue and expenditure forecasting errors, while a budget stabilization fund usually alleviates revenue shortfalls caused by economic downturns. Nevertheless, both should be reported as resources available to a state.

IV. REGIONAL DIFFERENCES IN FISCAL OUTLOOK

The most important fiscal trend in the states is that the economic schism between regions continues. States in the New England and Mid-Atlantic regions are registering strong economic growth, while states in the Farm and Energy Belts are experiencing severe regional recessions.

"The Bi-Coastal Economy," a recent study issued by the Democratic staff of the Congressional Joint Economic Committee, reported that between 1981 and 1985, "the sixteen coastal state grouping (includes the East coast from Maine to Florida, plus California) contains 42 percent of the nation's population. Nonetheless, this grouping accounted for nearly 70 percent of the real growth in wage and proprietorship income." One of the primary reasons for this dichotomy of fiscal growth was attributed to the current trade imbalance. The congressional report documented that in 1980, the U.S. trade surplus was $1.8 billion; however, by 1986 the projected trade deficit will be approximately $140 billion. The heartland states are those most affected by U.S. foreign trade policies and the strong dollar since agricultural, timber, manufacturing, and mining products are exported.

Clearly, state-by-state per capita income figures, unemployment statistics, and other economic indicators closely reflect the changing fiscal condition of state governments. Currently, there is no better example of that statistical relationship than what is now occurring in the energy states. For the eight energy states that derive more than 20 percent of the tax revenue from severance taxes, rents, and royalties (see Table 8), the unweighted average unemployment rate for May 1986 was 9.1 percent. This is two full percentage points higher than the national average. With the precipitous decline in the price of oil that dropped per barrel prices from $30 in November 1985 to about $10 in April 1986, the fiscal fortunes of oil states mirrored that rapid decline.

Louisiana provides a good example. In fiscal 1984, oil-derived revenues comprised 36 percent of total state taxes collected. The estimated fiscal 1987 figure shows the state's revenue dependency on severance taxes dropping to 19 percent. For every $1 drop in the price of oil, Louisiana loses $40 million from oil revenues and $17 million from lower sales and income taxes collected. This has forced the state legislature to slash $400 million from the current services fiscal 1987 budget, which may result in state employee layoffs of 1,000 to 2,000. However, the fiscal 1987 budget is based on oil selling for $17 per barrel, and the current price is $15.50 and falling. Depending on the price of oil in the next few months, a special session of the legislature may be called.

Texas is in a similar position. In fiscal 1982, oil revenues comprised 24.5 percent of Texas' tax revenues. In fiscal 1987, that figure is expected to drop to 10.8 percent. For

Table 8
DEGREE OF RELIANCE OF ENERGY STATES ON THE PRICE OF OIL

State	*State Revenue Loss for Every $1 Drop in Oil Price ($ in millions)*	*FY87 Oil Price Forecast (As of Feb.–Mar. 1986)*	*Revised FY87 Oil Price Forecast (As of June–July 1986)*	*Severance Tax Revenues as a Percent of Total State Taxes**
Alaska	$150	$20–22/bbl.	$9–11/bbl.	71%
Louisiana	40	20.00	15.50*	25
Mississippi	*	15.00	14.00	6
Montana	3	25.00	15.00	25
New Mexico	7	22.40	13.00	27
North Dakota	4.4	18.00	14.00	29
Oklahoma	11	18.00	18.00	26
Texas	70	15.00	15.11	23*
Wyoming	4	22.00	10.50	48

*Includes all severance tax collections, such as from oil, natural gas, and coal.
Percentage based on FY84 state tax collections.
LA: Fiscal 1987 budget was based on $17/bbl oil. Current forecast is lower. The share of oil revenue as a percent of total revenue is expected to decline to 19% in fiscal 1987.
MS: Will lose $21 million in FY87 as a result of lower oil and natural gas prices.
TX: The share of oil revenue as a percent of total revenue is expected to decline to 10.8% in fiscal 1987.

every $1 drop in the price of oil, the state loses $70 million in direct oil revenue and loses another $30 million in sales tax revenue. This has caused a $2.9 billion revenue shortfall for the fiscal 1986-87 biennium, of which at least $1.3 billion will be saved by cutting the budget. A special session is scheduled to convene in August to resolve the remaining revenue shortfall.

Similar stories are found in Alaska, Montana, New Mexico, North Dakota, Oklahoma, and Wyoming. Alaska cut state employee salaries 10 percent as part of a 15 percent fiscal 1987 budget cut; Montana and New Mexico both called special sessions in June, and cut the budget and raised taxes; North Dakota has cut the budget 4 percent across the board and is likely to call a special session in the upcoming months; Oklahoma's fiscal 1987 budget is 16 percent less than last year's; and Wyoming's Governor has issued an 8 percent biennial holdback, which makes the fiscal 1987 budget equal that of fiscal 1986.

Other Western states, not heavily dependent on the oil sector, are also experiencing fiscal problems, although they are not as severe as those in leading energy states. This includes: Idaho, where lawmakers temporarily raised the sales tax 1 percent and budgeted for a very slim ending balance; Arizona, which just enacted a 6 percent cut on many state agencies; and Utah, which is budgeting for a very small increase in fiscal 1987 spending and a similarly small ending balance. The West Coast states, most notably California, have comparatively better fiscal fortunes and are planning on moderate economic growth in the upcoming year.

The foreign trade deficit is one of the principal causes of a stagnant economy in the Farm Belt states of the Plains Region. The agricultural share of U.S. exports has shrunk from 19 percent to 15 percent over the last four years. This has resulted for the first time in nearly thirty years, in the United States becoming a net importer of agricultural goods. According to the congressional bi-coastal study, corn exports were down more than 80 percent from 1980-81 levels; May 1986 soybean exports declined 33 percent; and wheat was down 58 percent. Between 10 percent and 12 percent of U.S. farmers are projected to remain under financial stress in 1986. As a result, Iowa, Kansas, and Nebraska have fiscal 1987 budgets that are about the same size as last year's. Both Kansas and Nebraska raised the sales tax this year, and Iowa and Nebraska enacted mid-year budget cuts last year.

Minnesota and Wisconsin, also farm states but with more diverse economies, each cut their biennial budget early in 1986 and now expect no further fiscal problems. Both project moderate budget growth in fiscal 1987.

The Southeastern states have two stories to tell. States on the Atlantic coast appear to have moderate to strong growth in their economies, and report an aggregate unweighted average unemployment rate of 5.6 percent. However, their fortunes may change with the current drought and its subsequent effect on their agricultural sectors. In remaining Southeastern states, the unemployment rate is 9.8 percent (the national rate for May 1986 was 7.0 percent). The high unemployment rate is attributed to problems in both the oil and agricultural sectors. Alabama, Arkansas, Louisiana, Mississippi, and South Carolina have all cut fiscal 1986 budgets. In fact, Arkansas cut its budget four times and Mississippi cut its twice. Louisiana and South Carolina are reporting deficits for fiscal 1986. The fiscally strong states—such as Florida, Kentucky, North Carolina, Tennessee, and Virginia—all report fiscal 1987 budget increases of 10 percent or more. Those with weaker economies—Alabama, Louisiana, Mississippi, and West Virginia— report actual declines in fiscal 1987 spending compared to the prior years.

The Great Lakes states have a relatively stable economy, characterized by modest growth, but the unemployment rate is still high for some of these states. Ohio will enact the third year of an income tax decrease for 1987, while Michigan rolled back the personal income tax to pre-recession levels. Spending will be on the low side in Michigan, which reports a 1.4 percent increase, and in Illinois, which reports a 2.1 percent increase.

The regional, unweighted unemployment rate for the New England region was 4.0 percent in May—by far the lowest in the country. New Hampshire had the nation's lowest rate at 3.2 percent, closely followed by Rhode Island with 3.4 percent and Connecticut with 3.5 percent. Connecticut and Vermont lowered taxes this year, and Massachusetts still has a tax decrease measure pending—made possible by its thriving economy. Overall spending increases for fiscal 1987 will be above average.

Many Mid-Atlantic states share the same expanding economy, with lower-than-average unemployment rates and moderate increases in state-government spending. Tax decreases occurred in Pennyslvania and Delaware this year, and New York is continuing its three-year tax decrease package enacted last year.

V. THE STATES' RESPONSE TO GRAMM-RUDMAN-HOLLINGS BUDGET BALANCING ACT

Since the federal government passed the Gramm-Rudman-Hollings (GRH) Act in December 1985, state tracking of federal funds has become exceedingly difficult. In the past, it was hard for states to devise federal fund figures to factor in their budgets because most state fiscal years do not match the federal fiscal year. In addition, Congress rarely produces a timely budget resolution that could indicate to state budget officers what share of the federal budget is allocated for domestic programs.

But now with the passage of GRH and all the questions that surround it, predicting receipts from federal grant-in-aid programs becomes increasingly difficult.

Because of this uncertainty about federal aid, which comprises 23 percent of total state general revenues, it is interesting to note how states are budgeting for these receipts for fiscal 1987. Table 9 shows that twenty-three states are assuming that federal aid will equal about the same funding level that they received for fiscal 1986. Five states are planning for small increases in federal aid over last year's level to cover certain inflationary costs. Some of these assumed funding increases may come from increases expected in the aid to families with dependent children (AFDC) and Medicaid caseloads. These two programs are entitlement programs, which are not subject to GRH cuts. Four states—Delaware, Kentucky, Mississippi, and North Carolina—are projecting federal funding levels lower than those in fiscal 1986. Obviously, it can be difficult to aggregate all federal funds and predict whether total funding will be higher or lower. So most states responded by saying that the impact of different funding levels will vary depending on the program. Some states would not venture a guess since they do not appropriate federal funds, and other states have biennial budgets that have not yet been reopened to address this question. Many expect to adjust fiscal 1987 budgets when the legislature meets next and more information will be available about the outcome of GRH.

Aside from planning for next year's federal grant adjustments, states have just finished dealing with the first round of GRH cuts that occurred March 1 and totaled 4.3 percent. These cuts exempted AFDC and Medicaid and some other human service programs, so the brunt of the cuts was somewhat mitigated. Table 10 describes how states responded to the first impact of GRH. The vast majority of states chose to pass the cuts on to their agencies with no state dollar supplement. Only eleven states picked up part of the lost federal dollars with state dollars, although no state completely reimbursed agencies to make up for federal cuts. These states opted to supplement human resource programs, most often the social services block grant and some nutrition programs. Several of the eleven states that added state dollars to

Table 9
STATE BUDGET ASSUMPTIONS FOR RECEIPT OF FEDERAL FUNDS IN FISCAL 1987

State and Region	*Same Level of Funding As Fiscal 1986*	*Current Funding Plus An Inflation Adjustment*	*Lower Funding Levels Than Fiscal 1986*	*Notes*
New England				
Connecticut				Provided a contingency appropriation to meet cuts.
Maine				Varies by agency.
Massachusetts				
New Hampshire				
Rhode Island	●			
Vermont		●		
Mideast				
Delaware			●	
District of Columbia	●			Except for loss of GRS.
Maryland	●			Some programs at lower funding level.
New Jersey		●		Does not necessarily reflect inflation rate.
New York				Funded at "necessary" program levels.
Pennsylvania				Based on evaluation of each program.
Great Lakes				
Illinois	●			Same funding level; different composition.
Indiana				Biennial budget.
Michigan		●		Many instances assumes pre-GRH levels.
Ohio	●			
Wisconsin	●			Changes will occur with new federal budget developments.
Plains				
Iowa	●			
Kansas	●			
Minnesota	●			
Missouri	●			
Nebraska	●			Close to FY86 level.
North Dakota				Have biennial budgets.
South Dakota				Will adjust when more information is available.

Table 9 (continued)
STATE BUDGET ASSUMPTIONS FOR RECEIPT OF FEDERAL FUNDS IN FISCAL 1987

State and Region	*Same Level of Funding As Fiscal 1986*	*Current Funding Plus An Inflation Adjustment*	*Lower Funding Levels Than Fiscal 1986*	*Notes*
Southeast				
Alabama				Varies by agency; do not estimate federal funds.
Arkansas				Biennial budget.
Florida	●			$30 million appropriated to offset federal cuts.
Georgia	●			May address cuts in next legislative session.
Kentucky			●	Anticipate cuts in human service area
Louisiana	●			
Mississippi			●	
North Carolina			●	Biennial 86–87 budget assumes an 8.6% cut in non-exempt programs
South Carolina	●			
Tennessee	●			Assumes increases in Medicaid.
Virginia				Varies by program.
West Virginia		●		Varies by program.
				Information not available.
Southwest				
Arizona				State does not appropriate federal funds.
New Mexico		●		
Oklahoma				
Texas				Biennial budget.
Rocky Mountain				
Colorado	●			Dealt with on an agency-by-agency basis.
Idaho	●			
Montana	●			
Utah	●			
Wyoming	●			
Far West				
California				Varies; depending on agency.
Nevada	●			
Oregon				Biennial budget.
Washington				Biennial budget.
Alaska				
Hawaii	●			Same level for most programs.

Table 10
STATE RESPONSE TO FEDERAL BUDGET CUTS AS A RESULT OF GRAMM-RUDMAN-HOLLINGS

State and Region	*Passed Federal Cuts on To State Agencies*	*Supplemented Some Federal Cuts With State Dollars*	*Programs Supplemented/Notes*
New England			
Connecticut		●	Minor adjustments to appropriations
Maine			
Massachusetts			
New Hampshire			
Rhode Island	●		
Vermont	●		
Mideast			
Delaware		●	Funded most programs; those deemed essential.
District of Columbia	●		Will supplenent loss of GRS payment
Maryland	●		
New Jersey	●		
New York	●		Affected local government more than state.
Pennsylvania	●		
Great Lakes			
Illinois			GRH had no impact on state-funded programs
Indiana	●		
Michigan	●		
Ohio			Too early to determine.
Wisconsin	●		
Plains			
Iowa		●	Restored funding for Social Services Block Grant.
Kansas		●	Only added $40,000 for elderly nutrition program.
Minnesota	●		
Missouri	●		
Nebraska	●		
North Dakota		●	Plan on restoring ADAMH and Social Service Block Grant.
South Dakota		●	Supplemented only $65,000.

Table 10 (continued)
STATE RESPONSE TO FEDERAL BUDGET CUTS AS A RESULT OF GRAMM-RUDMAN-HOLLINGS

State and Region	*Passed Federal Cuts on To State Agencies*	*Supplemented Some Federal Cuts With State Dollars*	*Programs Supplemented/Notes*
Southeast			
Alabama		●	Supplemented Social Services Block Grant for day care ($65 million) and mental health and retardation ($3 million).
Arkansas	●		
Florida	●		
Georgia	●		
Kentucky	●		
Louisiana	●		
Mississippi	●		
North Carolina	●		
South Carolina	●		
Tennessee	●		
Virginia	●		
West Virginia			Information not available.
Southwest			
Arizona	●		
New Mexico	●		
Oklahoma		●	Supplemented Department of Human Services with $5.1 million.
Texas	●		
Rocky Mountain			
Colorado	●		
Idaho		●	Replaced 100% of Social Services Block Grant in FY87.
Montana	●		
Utah	●		
Wyoming	●		
Far West			
California		●	Older Americans Act, Title III Nutrition ($1.2 million), Refugee Cash Assistance ($.9 million), Child Support Enforcement ($3.6 million), In-Home Supportive Service ($6.1 million), Occupational Health and Safety ($.4 million).
Nevada	●		Agencies shifted funds to avert service reduction.
Oregon		●	Restored some funds to Department of Human Resources.
Washington	●		
Alaska			
Hawaii	●		

federal programs were states that are experiencing serious fiscal problems in their own budgets.

A number of states suggested that the federal cuts in fiscal 1986 would not seriously reduce service levels because some programs are forward-funded, some carry over funds from prior years will be used, and agencies could keep some positions vacant to provide more flexibility. However, a number a states reported that some state employee layoffs would be necessary as a direct result of GRH budget cuts. Tennessee may have to furlough up to eighty positions in the Unemployment Service Agency, while the Rhode Island Department of Employment Security has a freeze on hiring. Florida has had minor layoffs in the Department of Agriculture, while Minnesota expects to lay off fewer than thirty employees due to GRH. The state of South Dakota reduced highway construction, and Virginia plans to reduce service levels for the alcohol, drug abuse, and mental health block grant. The Governor of North Carolina implemented a 1.5 percent workforce reduction in order to assure the necessary reversions to absorb the cuts.

Several states that have available resources have taken precautionary measures to mitigate the future impact of federal budget cuts. Nine states have chosen to establish special funds enabling them to draw down these funds to supplement priority programs. These funds are insufficient to make up for all the cuts. These states are:

Connecticut	A $1 million "federal contingency reserve fund" was established allowing the Governor to offset the federal budget cuts; statutory restrictions on replacing federal funds with state resources were repealed; and a mechanism was established to provide for the temporary replacement of lost federal funds while the general assembly is not in session.
Delaware	For fiscal 1987, the legislature appropriated full funding for most federal programs until October 1, 1986. At that time, a report will be compiled outlining the degree of cuts and providing recommendations to the Governor by October 15. If action is required before the next legislative session, the Joint Finance Committee will meet to take such action. In addition, the legislature left $7.4 million unappropriated in fiscal 1987 as a possible supplement to federal cuts.
Florida	$30 million was appropriated from the working capital fund for transfer to the general fund to help offset any significant reductions in federal funds.
North Carolina	The Governor recommended that the 1986 general assembly appropriate $17.3 million in a reserve fund to support programs that are affected by GRH. Programs meriting a supplement would be selected by the Governor.
Oregon	The 1985 legislature set up a $4.4 million emergency fund to be used for federal fund shortfalls in the human resource area. These federal shortfalls were not allocated to the department until May 1986.
Rhode Island	A federal reduction relief fund has $7 million, which is reserved for future cuts.

South Dakota	The state appropriated $4 million from the general fund into the federal deficit reduction reserve fund. Agencies facing federal funding cuts may request appropriations from that fund to temporarily replace lost federal funds beginning in fiscal 1987.
Vermont	A special contingency fund was established, with expenditures to be authorized by the emergency board to affect GRH reductions that would result in "immediate and irreparable harm." This is effective only until February 1, 1987.
Virginia	The 1985 general assembly added language to the appropriations act to provide for a revenue reserve account to offset up to 40 percent of federal funds reductions.

VI. APPENDIX

The *Fiscal Survey of the States* is published semiannually by the National Association of State Budget Officers (NASBO) and the National Governors' Association (NGA). The series was started in 1977. The survey presents aggregate and individual data on the states' general fund receipts, expenditures, and balances. While not the totality of state spending, these funds are used to finance most broad-based state services, and are the most important elements in determining the fiscal health of the states. An additional survey will be released in the fall of 1986, which will include all state spending.

The field survey on which this report was based was taken by the National Association of State Budget Officers in June and July 1986. The questionnaires were completed by Governors' state budget officers.

Fiscal 1986 closed for forty-six states on June 30, 1986. New York's fiscal year ended on March 31, 1986. Texas' fiscal year will close August 31, 1986, and Michigan's and Alabama's on September 30, 1986. Thus, fiscal 1986 numbers are still estimated amounts. Fiscal 1987 budget data reflects the budgets that were adopted by the legislatures.

The structure of the survey presumes budgeting identities as follows:

1. Beginning Balance + Revenues + Adjustments = Revenues
2. Resources − Expenditures − Transfer = Ending Balance
3. Ending Balance, Year 1 = Beginning Balance, Year 2

Adjustments to revenues may include such things as reversions, tax refunds, settlement from court cases, surplus property sales, changes in tax collections, and changes in fund dedication. Transfers may be positive or negative, depending on whether monies are flowing in or out of the general fund.

Exceptions to this identity result from rounding numbers and from the practice in a few states of making adjustments between the ending balance in one year and the beginning balance in the next. These exceptions have only a minor impact on the overall results of the survey.

Reporting concepts within this structure vary from state to state, as do definitions of what activities are included in the general fund, although all federal funds and trust funds are usually excluded. Thus, the results of the fiscal survey are not strictly appropriate for comparisons among states. They are more appropriate for comparisons over time within the same state.

APPENDIX TABLES

Table A-1
FISCAL 1986 STATE GENERAL FUNDS
($ in millions)
ESTIMATED FIGURES

State	Beginning Balance	Revenue	Adjustments	Resources	Expenditures	Transfers	Ending Balance	Budget Stab. Fund
Alabama	308	2,461	(6)	2,763	2,763		0	
Alaska*			NOT AVAILABLE					
Arizona	14	2,347	22	2,383	2,361	2	24	
Arkansas	0	1,586		1,586	1,586		0	
California	1,400	28,148		29,548	28,957	(21)	570	**
Colorado*	16	1,894	6	1,915	1,866	(55)	(5)	**
Connecticut	0	4,237		4,237	3,958	(279)	0	199
Delaware	180	889		1,070	929		141	**
Florida	113	6,946		7,059	6,880	(113)	66	228
Georgia	254	4,972		5,226	5,226		0	149
Hawaii	130	1,577	39	1,745	1,646		99	
Idaho	0	561	10	571	582	11	0	0
Illinois	479	9,786		10,265	10,014	37	288	
Indiana	55	3,352		3,407	3,122	(208)	76	145
Iowa	0	2,340	(209)	2,131	2,129	(2)	0	2
Kansas	121	1,661		1,782	1,750	5	37	
Kentucky	123	2,763	9	2,894	2,687		207	
Louisiana*	100	4,263		4,363	4,427		(64)	
Maine	21	942	5	968	962	(3)	3	
Maryland	49	4,155		4,204	4,158		46	
Massachusetts	92	6,290		6,382	5,902	(144)	336	
Michigan	117	6,093	(93)	6,117	6,034	(31)	52	360
Minnesota	539	4,817		5,356	4,945	(127)	284	**
Mississippi*	54	1,502	(44)	1,512	1,506	17	23	6
Missouri*	265	2,908		3,173	3,127		46	0
Montana	33	356		389	369		20	
Nebraska	13	835		848	830		18	22
Nevada	65	483	10	557	474	(2)	81	
New Hampshire*	22	460		482	452		30	
New Jersey	812	8,336	55	9,202	8,784		418	
New Mexico	112	1,365	58	1,536	1,411	(9)	116	**
New York	102	22,861		22,963	21,751	(1,059)	153	**
North Carolina	380	4,911		5,291	4,974		317	
North Dakota	161	475		636	527	(5)	104	
Ohio	298	9,648	20	9,966	9,501	(7)	458	140
Oklahoma	100	1,875	65	2,040	2,032	(8)	0	0
Oregon*	195	1,535		1,729	1,596		133	
Pennsylvania	310	9,395	(152)	9,553	9,185	(155)	213	25
Rhode Island	61	1,036		1,097	1,051	(5)	41	10
South Carolina*	61	2,551		2,612	2,614	(7)	(9)	96
South Dakota	40	329		369	350		19	
Tennessee	205	2,723		2,928	2,620	(208)	100	**
Texas*	234	10,685		10,919	5,599	(5,280)	40	
Utah	19	1,266		1,285	1,287	2	0	
Vermont	(20)	408	4	392	389	(2)	0	
Virginia*	47	4,124	67	4,238	4,061		177	0
Washington	0	4,559		4,559	4,533		26	0
West Virginia	163	1,531		1,694	1,660		34	
Wisconsin	314	4,750	77	5,141	4,910		231	0
Wyoming	139	392		531	353	(116)	62	145
Total	8,296	203,379	(57)	211,614	198,830	(7,772)	5,011	1,527
Dist. of Col.*	(245)	2,277		2,032	2,174	(93)	(234)	

Notes to Table A-1

Fiscal 1986

**Budget Stabilization Fund is included with ending balance.

Notes: Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes at the end of the Appendix. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

AK: Figures are not available due to new revenue forecast and the continued dramatic drop in oil prices. Spending is substantially lower than prior year.

CO: Due to transfers and reversions, the fiscal year will end in balance.

DC: Cumulative balances include pre-home rule deficits. Other figures are annual.

LA: The negative balance will be offset to an extent by reversions.

MO: Does not reflect cash operating reserve in excess of $130 million.

MS: This figure represents "default" insurance and cannot be spent unless the state ends the fiscal year with a deficit. A cash flow fund of $32 million is not included.

NH: Figures are from the director of finance and represents preliminary and unaudited information.

OR: Expenditures for the biennium are split arbitrarily, first year = 48 percent, second year = 52 percent.

SC: Budget stabilization fund is to be used to cover any operational deficit.

TX: Fiscal 1986-87 biennial budget expected to be revised in an August special session to cover a $2.9 billion revenue shortfall.

VA: Capital outlay appropriations for the biennium are contained in the first year of the budget and are subject to carry forward in the second year.

Table A-2
FISCAL 1987 STATE GENERAL FUNDS
($ in millions)
APPROPRIATIONS

State	Beginning Balance	Revenue	Adjustments	Resources	Expenditures	Transfers	Ending Balance	Budget Stab. Fund
Alabama	0	2,599	(6)	2,593	2,593		0	
Alaska*			NOT AVAILABLE					
Arizona	24	2,529		2,552	2,531		21	
Arkansas	0	1,712		1,712	1,712		0	
California	570	30,998		31,568	30,650	137	1,055	**
Colorado	0	2,070		2,070	2,000	(22)	48	**
Connecticut	0	4,297		4,297	4,297		1	215
Delaware	141	903		1,044	934		110	**
Florida	66	7,599		7,665	7,753	88	0	155
Georgia	0	5,316		5,316	5,316		0	159
Hawaii	99	1,671	10	1,780	1,729		51	
Idaho	0	570	46	616	601	(11)	4	0
Illinois	288	10,016		10,304	10,225	143	222	
Indiana	76	3,551		3,627	3,335	(260)	32	163
Iowa	0	2,407	(233)	2,174	2,174	(1)	0	1
Kansas	37	1,858		1,895	1,797		98	
Kentucky	207	2,992		3,199	3,011	(50)	137	50
Louisiana*	(64)	4,267		4,203	4,248		(45)	
Maine	3	1,034	3	1,040	1,038	(2)	0	
Maryland	46	4,439		4,486	4,428	(50)	8	50
Massachusetts	336	6,775		7,111	6,671	(73)	369	
Michigan	52	6,083		6,135	6,120	(3)	12	350
Minnesota	284	5,044		5,328	5,115	(142)	71	**
Mississippi*	23	1,490	(23)	1,490	1,490		0	6
Missouri*	46	3,235	65	3,346	3,346		0	0
Montana	20	362		382	367		15	
Nebraska	18	847		865	867		(2)	24
Nevada	81	511	5	597	529	2	70	
New Hampshire*	30	458		488	457		30	
New Jersey	418	8,851		9,269	9,038		233	
New Mexico	116	1,409	21	1,545	1,454	(8)	84	**
New York	153	24,554		24,707	23,351	(1,187)	169	**
North Carolina	317	5,202		5,519	5,516		3	
North Dakota*	104	435		539	566		(27)	
Ohio	458	10,186		10,644	10,585	(5)	54	152
Oklahoma	0	1,794		1,794	1,705		89	
Oregon*	133	1,725		1,858	1,729		128	
Pennsylvania	213	9,667	(158)	9,722	9,668	(50)	4	50
Rhode Island	41	1,085		1,126	1,113	(12)	1	18
South Carolina	0	2,778		2,778	2,761	(6)	11	102
South Dakota	19	356		375	370		5	
Tennessee	100	2,894		2,994	2,904	(40)	50	**
Texas*	40	10,977		11,017	5,463	(5,554)	0	
Utah	0	1,312		1,312	1,325	13	0	
Vermont	0	428	1	429	426		3	
Virginia*	177	4,447	51	4,676	4,676	0	0	46
Washington	26	4,789		4,816	4,718		97	0
West Virginia	34	1,593		1,627	1,625		2	
Wisconsin	231	4,855	93	5,179	5,082		97	0
Wyoming*	62	360	(40)	381	355	(5)	21	150
Total	5,025	215,330	(165)	220,190	209,764	(7,098)	3,331	1,691
Dist. of Col.*	(234)	2,393		2,159	2,294	(91)	(226)	

Notes to Table A-2

Fiscal 1987

**Budget Stabilization Fund is included with ending balance.

Notes: Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes at the end of the Appendix. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

AK: Figures are not available due to new revenue forecast and the continued dramatic drop in oil prices. Spending is substantially lower than prior year and a deficit is pending.

DC: Cumulative balances include pre-home rule deficits. Other figures are annual.

LA: The negative balance will be offset to an extent by reversions.

MO: Does not reflect cash operating reserve in excess of $130 million.

MS: This figure represents "default" insurance and cannot be spent unless the state ends the fiscal year with a deficit. A cash flow fund of $32 million is not included.

NH: Figures are from the director of finance and represents preliminary and unaudited information.

ND: Deficit to be addressed by legislature in December 1986 at a special session or beginning of regular session, January 1987.

OR: Expenditures for the biennium are split arbitrarily, first year = 48 percent, second year = 52 percent.

TX: Fiscal 1986-87 biennial budget expected to be revised in an August special session to cover a $2.9 billion revenue shortfall.

VA: Budget stabilization figure is a biennial figure included in appropriated expenditures and is subject to change in 1987-88 biennium.

WY: Includes an 8 percent reduction in budget authority to spend, but not a cut in appropriations.

Table A-3
YEAR-END BALANCES, FISCAL 1986 AND 1987
($in millions)

State	Year-End Balances Fiscal 1986	Year-End Balances Fiscal 1987	As a % of Expenditures Fiscal 1986	As a % of Expenditures Fiscal 1987
Alabama	0	0	0.0	0.0
Alaska	n.a.	n.a.		
Arizona	24	21	1.0	0.8
Arkansas	0	0	0.0	0.0
California	570	1,055	2.0	3.4
Colorado	(5)	48	-0.3	2.4
Connecticut	0	1	0.0	.0
Delaware	141	110	15.2	11.8
Florida	66	0	1.0	0.0
Georgia	0	0	0.0	0.0
Hawaii	99	51	6.0	2.9
Idaho	0	4	0.0	0.7
Illinois	288	222	2.9	2.2
Indiana	76	32	2.4	1.0
Iowa	0	0	0.0	0.0
Kansas	37	98	2.1	5.5
Kentucky	207	137	7.7	4.5
Louisiana	(64)	(45)	-1.4	-1.1
Maine	3	0	0.3	0.0
Maryland	46	8	1.1	0.2
Massachusetts	336	369	5.7	5.5
Michigan	52	12	0.9	0.2
Minnesota	284	71	5.7	1.4
Mississippi	23	0	1.5	0.0
Missouri	46	0	1.5	0.0
Montana	20	15	5.4	4.1
Nebraska	18	(2)	2.2	-0.2
Nevada	81	70	17.1	13.2
New Hampshire	30	30	6.6	6.6
New Jersey	418	233	4.8	2.6
New Mexico	116	84	8.2	5.8
New York	153	169	0.7	0.7
North Carolina	317	3	6.4	0.1
North Dakota	104	(27)	19.7	-4.8
Ohio	458	54	4.8	0.5
Oklahoma	0	89	0.0	5.2
Oregon	133	128	8.3	7.4
Pennsylvania	213	4	2.3	.0
Rhode Island	41	1	3.9	0.1
South Carolina	(9)	11	-0.3	0.4
South Dakota	19	5	5.4	1.4
Tennessee	100	50	3.8	1.7
Texas	40	0	0.7	0.0
Utah	0	0	0.0	0.0
Vermont	0	3	0.0	0.7
Virginia	177	0	4.4	0.0
Washington	26	97	0.6	2.1
West Virginia	34	2	2.0	0.1
Wisconsin	231	97	4.7	1.9
Wyoming	62	21	17.6	5.9
Total	5,011	3,331	2.5	1.6
Dist. of Col.	(234)	(226)	-10.8	-9.9

TABLE A-4

STATE YEAR-END BALANCES AS A PERCENT OF GENERAL FUND EXPENDITURES, FISCAL 1978-1987

STATE	FY87e	FY86e	FY85	FY84	FY83	FY82	FY81	FY80	FY79	FY78
U.S. Average	1.6%	2.5%	2.9%	3.3%	1.3%	3.0%	4.4%	9.0%	8.7%	8.6%
New England										
Connecticut	0.0	0.0	0.0	0.0	-1.5	-1.4	-2.4	0.0	0.0	4.9
Maine	0.0	0.3	0.7	2.3	0.3	2.9	4.3	3.6	5.5	8.4
Massachusetts	5.5	5.7	2.0	0.4	1.5	0.1	0.9	1.1	5.6	5.5
New Hampshire	6.6	6.6	4.9	0.3	-12.5	-10.9	-11.1	3.9	13.2	11.3
Rhode Island	0.1	3.9	2.9	3.6	0.3	0.4	2.9	5.2	6.9	3.7
Vermont	0.7	0.0	-5.3	-10.6	-9.5	0.0	-0.4	-3.1	0.0	2.5
Mideast										
Delaware	11.8	15.2	16.8	8.0	7.1	7.9	7.7	6.8	8.9	5.1
Maryland	0.2	1.1	0.3	0.5	1.0	5.3	5.3	11.2	5.5	9.2
New Jersey	2.6	4.8	7.7	8.8	2.1	2.4	5.9	5.9	4.9	7.0
New York	0.7	0.7	0.5	0.3	0.0	0.4	0.1	0.1	0.1	0.1
Pennsylvania	0.0	2.3	3.6	1.0	-3.1	0.1	1.1	1.1	0.5	-0.1
Great Lakes										
Illinois	2.2	2.9	2.9	2.4	1.4	2.4	2.4	5.2	5.8	1.3
Indiana	1.0	2.4	0.6	3.8	2.8	0.0	1.4	10.7	18.7	1.4
Michigan	0.2	0.9	0.8	5.3	0.5	0.1	0.0	0.0	0.7	0.6
Ohio	0.5	4.8	3.4	1.2	0.6	0.8	0.2	3.4	9.2	3.2
Wisconsin	1.9	4.7	7.5	9.0	-4.5	2.1	0.7	2.2	9.0	9.0
Plains										
Iowa	0.0	0.0	0.0	0.0	0.4	1.3	1.9	1.8	5.8	7.4
Kansas	5.5	2.1	8.4	5.5	3.1	1.9	11.1	16.5	20.3	18.4
Minnesota	1.4	5.7	12.0	8.2	2.0	-13.8	-0.7	3.4	7.8	1.0
Missouri	0.0	1.5	6.2	8.4	2.4	3.1	3.6	13.7	20.5	9.4
Nebraska	-0.2	2.2	-2.8	6.0	2.1	-2.2	8.6	20.3	11.9	6.2
North Dakota	-4.8	19.7	25.8	23.0	10.4	26.2	50.9	53.2	49.8	73.3
South Dakota	1.4	5.4	1.5	1.7	6.9	7.4	8.7	7.3	5.6	5.2
Southeast										
Alabama	0.0	0.0	12.2	14.0	0.5	1.4	1.7	1.2	1.4	6.7
Arkansas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Florida	0.0	1.0	0.1	1.7	2.4	5.4	13.8	17.6	7.9	4.2
Georgia	0.0	0.0	0.0	1.6	0.6	0.0	2.7	5.8	3.9	6.0
Kentucky	4.5	7.7	0.0	1.7	1.8	2.0	0.5	0.8	4.6	5.8
Louisiana	-1.1	-1.4	0.0	1.4	4.7	6.9	16.5	19.3	15.1	1.6
Mississippi	0.0	1.5	2.6	0.8	1.2	3.2	7.0	6.2	8.1	13.7
North Carolina	0.1	6.4	0.3	6.8	2.1	3.3	4.9	10.4	7.6	8.5
South Carolina	0.4	-0.3	0.0	2.6	0.9	0.0	0.2	3.2	1.0	4.3
Tennessee	1.7	3.8	3.9	7.7	0.8	1.9	3.2	4.9	0.3	0.0
Virginia	0.0	4.4	0.0	2.9	4.0	8.4	1.6	14.1	5.7	1.9
West Virginia	0.1	2.0	3.7	10.5	4.9	6.3	4.3	7.9	4.9	5.9

TABLE A-4

STATE YEAR-END BALANCES AS A PERCENT OF GENERAL FUND EXPENDITURES, FISCAL 1978-1987

STATE	FY87e	FY86e	FY85	FY84	FY83	FY82	FY81	FY80	FY79	FY78
U.S. Average	1.6%	2.5%	2.9%	3.3%	1.3%	3.0%	4.4%	9.0%	8.7%	8.6%
Southwest										
Arizona	0.8	1.0	0.1	0.7	0.0	0.6	9.1	19.7	11.0	3.1
New Mexico	5.8	8.2	8.0	12.1	12.0	18.5	18.7	16.6	6.4	13.0
Oklahoma	5.2	0.0	5.3	0.4	0.9	23.3	30.1	5.6	13.4	10.8
Texas	0.0	0.7	0.3	1.6	22.0	28.6	17.8	10.7	17.9	20.2
Rocky Mountain										
Colorado	2.4	-0.3	2.8	1.8	0.0	1.1	4.3	21.5	15.1	10.3
Idaho	0.7	0.0	0.0	1.9	0.0	0.0	0.5	1.9	3.2	0.0
Montana	4.1	5.4	5.8	9.9	17.1	9.8	23.0	17.9	12.0	15.4
Utah	0.0	0.0	0.0	7.6	1.2	3.4	3.1	1.2	2.5	4.1
Wyoming	5.9	17.6	28.6	52.7	51.1	52.0	29.7	70.0	69.9	30.0
Far West										
California	3.4	2.0	4.9	2.2	-2.7	0.5	3.2	10.8	16.5	31.0
Nevada	13.2	17.1	9.3	20.3	10.9	12.7	11.6	18.6	26.6	n.a.
Oregon	7.4	8.3	9.0	2.9	1.4	-9.7	0.4	6.7	12.9	20.7
Washington	2.1	0.6	0.0	3.4	0.8	7.8	0.2	4.6	14.8	10.6
Alaska	N/A	N/A	-7.8	7.7	2.5	6.2	18.0	188.2	60.8	58.4
Hawaii	2.9	6.0	7.3	7.6	9.6	17.1	20.2	10.3	7.5	0.3

Note: Figures do not include budget stabilization funds.

Table A-5
BUDGET STABILIZATION FUNDS, FISCAL 1986 AND 1987
($ in millions)

State	BUDGET STAB. FUNDS		As a % of Expenditures	
	Fiscal 1986	Fiscal 1987	Fiscal 1986	Fiscal 1987
Alabama				
Alaska				
Arizona				
Arkansas				
California	**	**		
Colorado	**	**		
Connecticut	199	215	5.0	5.0
Delaware	**	**		
Florida	228	155	3.3	2.0
Georgia	149	159	2.9	3.0
Hawaii				
Idaho	0	0	0.0	0.0
Illinois				
Indiana	145	163	4.6	4.9
Iowa	2	1	0.1	.0
Kansas				
Kentucky		50		1.7
Louisiana				
Maine				
Maryland		50		1.1
Massachusetts				
Michigan	360	350	6.0	5.7
Minnesota	**	**		
Mississippi	6	6	0.4	0.4
Missouri	0	0	0.0	0.0
Montana				
Nebraska	22	24	2.7	2.8
Nevada				
New Hampshire				
New Jersey				
New Mexico	**	**		
New York	**	**		
North Carolina				
North Dakota				
Ohio	140	152	1.5	1.4
Oklahoma	0	0	0.0	0.0
Oregon				
Pennsylvania	25	50	0.3	0.5
Rhode Island	10	18	1.0	1.6
South Carolina	96	102	3.7	3.7
South Dakota				
Tennessee	**	**		
Texas				
Utah				
Vermont				
Virginia	0	46	0.0	1.0
Washington	0	0	0.0	0.0
West Virginia				
Wisconsin	0	0	0.0	0.0
Wyoming	145	150	41.1	42.3
Total	1,527	1,691	0.8	0.8
Dist. of Col.				

Notes to Table A-5

**Budget Stabilization Fund is included with ending balance.

TABLE A-6
HISTORICAL TREND OF STATE BUDGET STABILIZATION FUNDS, FISCAL 1983 - 1987

	YEAR END BALANCES ($ IN MILLIONS)					AS A PERCENT OF EXPENDITURES				
STATE AND REGION	FY83	FY84	FY85	FY86 e	FY87 e	FY83	FY84	FY85	FY86 e	FY87 e
United States	$262	$891	$1,731	$1,527	$1,691	0.2%	0.5%	0.9%	0.8%	0.8%
New England										
Connecticut		$160	$200	$199	$215		4.4%	5.5%	5.0%	5.0%
Maine			1					0.1		
Massachusetts										
New Hampshire										
Rhode Island			4	10	18			0.4	1.0	1.6
Vermont										
Mideast										
Delaware	**	**	**	**	**					
Dist. of Col.										
Maryland					50					1.1
New Jersey										
New York			**	**	**					
Pennsylvania				25	50				0.3	0.5
Great Lakes										
Illinois										
Indiana			145	145	163			4.8	4.6	4.9
Michigan		4	372	360	350		0.1	6.8	6.0	5.7
Ohio		0	125	140	152		0.0	1.4	1.5	1.4
Wisconsin				0	0				0.0	0.0
Plains										
Iowa		6	0	2	1		0.3	0.0	0.1	0.0
Kansas										
Minnesota		**	**	**	**					
Missouri			0					0.0		
Nebraska			36	22	24			4.4	2.6	2.9
North Dakota										
South Dakota										

STATE AND REGION	YEAR END BALANCES ($ IN MILLIONS)					AS A PERCENT OF EXPENDITURES				
	FY83	FY84	FY85	FY86 e	FY87 e	FY83	FY84	FY85	FY86 e	FY87 e
Southeast										
Alabama										
Arkansas										
Florida	103	69	120	228	155	2.0	1.2	1.9	3.3	2.0
Georgia	26	45	138	149	159	0.7	1.1	3.2	2.9	3.0
Kentucky	18	41			50	0.8	1.7			1.7
Louisiana										
Mississippi	20	5	32[1]	6	6	1.6	0.4	2.3	0.4	0.4
North Carolina										
South Carolina	58	98	89	96	102	3.0	4.6	3.7	3.7	3.7
Tennessee	**	**	**	**	**					
Virginia	13	36	55	0	46	0.5	0.5	1.9	0.0	1.0
West Virginia										
Southwest										
Arizona										
New Mexico	**	**	**	**	**					
Oklahoma				0	0				0.0	0.0
Texas										
Rocky Mountain										
Colorado		**	**	**	**					
Idaho		6	6	0	0		1.3	1.1	0.0	0.0
Montana										
Utah										
Wyoming	21	110	110	145	150	6.0	31.0	27.4	41.0	42.3
Far West										
California		**	**	**	**					
Nevada										
Oregon										
Washington		0	0	0	0		0.0	0.0	0.0	0.0
Alaska		277	298				8.1	8.3	N/A	N/A
Hawaii										

Source: Fiscal years 1983 and 1984 from State Budget Actions in 1984, National Conference of State Legislatures, Denver, CO, September 1984; other figures are from NASBO/NGA fiscal surveys.

** Figures are included with ending balances.

[1] MS: Figures combine amounts from three funds. Not completely comparable with other years.

Table A-7
ANNUAL PERCENTAGE CHANGE IN EXPENDITURES, FISCAL 1986 AND 1987

State	Nominal Percentage Change Fiscal 1986	Nominal Percentage Change Fiscal 1987	Real Percentage Change Fiscal 1986	Real Percentage Change Fiscal 1987
Alabama	15.3	-6.2	9.8	-9.7
Alaska	n.a.	n.a.	n.a.	n.a.
Arizona	11.8	7.2	6.5	3.1
Arkansas	2.1	7.9	-2.8	3.9
California	12.6	5.8	7.2	1.8
Colorado	4.6	7.2	-0.4	3.1
Connecticut	8.8	8.6	3.6	4.5
Delaware	16.3	0.5	10.7	-3.3
Florida	10.9	12.7	5.6	8.4
Georgia	20.8	1.7	15.1	-2.1
Hawaii	13.2	5.0	7.8	1.1
Idaho	4.3	3.3	-0.7	-0.6
Illinois	7.9	2.1	2.8	-1.8
Indiana	3.8	6.8	-1.2	2.8
Iowa	2.1	2.1	-2.8	-1.8
Kansas	7.0	2.7	1.9	-1.2
Kentucky	8.4	12.1	3.2	7.8
Louisiana	7.2	-4.0	2.0	-7.7
Maine	15.9	7.9	10.4	3.8
Maryland	10.1	6.5	4.8	2.5
Massachusetts	7.6	13.0	2.5	8.7
Michigan	9.6	1.4	4.4	-2.4
Minnesota	3.3	3.4	-1.7	-0.5
Mississippi	10.5	-1.1	5.2	-4.8
Missouri	22.3	7.0	16.5	3.0
Montana	-2.9	-0.5	-7.5	-4.3
Nebraska	1.7	4.5	-3.1	0.5
Nevada	-9.2	11.6	-13.5	7.4
New Hampshire	11.6	1.1	6.3	-2.7
New Jersey	14.7	2.9	9.2	-1.0
New Mexico	3.3	3.0	-1.6	-0.9
New York	11.3	7.4	6.0	3.3
North Carolina	13.0	10.9	7.6	6.7
North Dakota	0.2	7.4	-4.6	3.3
Ohio	9.7	11.4	4.4	7.2
Oklahoma	21.7	-16.1	15.9	-19.3
Oregon	-1.1	8.3	-5.8	4.2
Pennsylvania	7.0	5.3	1.9	1.3
Rhode Island	8.0	5.9	2.9	1.9
South Carolina	9.1	5.6	3.8	1.6
South Dakota	10.1	5.7	4.8	1.7
Tennessee	9.3	10.8	4.1	6.6
Texas	0.9	-2.4	-3.9	-6.1
Utah	0.2	3.0	-4.6	-0.9
Vermont	7.5	9.5	2.3	5.4
Virginia	4.8	15.1	-0.2	10.8
Washington	5.2	4.1	0.2	0.1
West Virginia	11.8	-2.1	6.4	-5.8
Wisconsin	7.0	3.5	1.9	-0.4
Wyoming	-12.0	0.6	-16.2	-3.2
Total	9.5	5.5	4.3	1.5
Dist. of Col.	7.3	5.5	2.1	1.5

Notes to Table A-7

Nominal and Real Annual Changes in Expenditures

Virginia: Capital outlay appropriation for the biennium are contained in the first year of the budget and are subject to carry forward in the second year.

TABLE A-8

SELECTED FEATURES OF STATE WORKFORCES

	NUMBER OF EMPLOYEES AS OF 6/30/85	ESTIMATED NUMBER OF EMPLOYEES AS OF 6/30/86	PERCENTAGE CHANGE FROM FISCAL 1985 TO 1986
United States	1,771,137	1,787,870	0.9%
New England			
Connecticut	32,885	33,717	2.5
Maine	N/A	N/A	
Massachusetts*	50,658	51,189	1.0
New Hampshire	N/A	N/A	
Rhode Island	10,324	9,825*	-4.8
Vermont	6,890	7,040	2.2
Mideast			
Delaware	11,525	11,700	1.5
Dist. of Col.	19,286	20,185*	4.7
Maryland	55,316	56,553	2.2
New Jersey	70,339	72,444	3.0
New York	159,634	161,776*	1.3
Pennsylvania	87,665	84,736*	-3.3
Great Lakes			
Illinois	65,500	65,500	0.0
Indiana	33,028	33,756	2.2
Michigan	56,553	57,940	2.5
Ohio	54,142	54,576	0.8
Wisconsin	27,918	28,062	0.5
Plains			
Iowa	N/A	N/A	
Kansas	22,064	22,214	0.7
Minnesota	29,101	28,093*	-3.5
Missouri	42,940	46,600	8.5
Nebraska	15,429	15,295	-0.9
North Dakota	8,325	8,313*	-0.1
South Dakota	8,037	8,199	2.0
Southeast			
Alabama	29,850	31,001	3.9
Arkansas	N/A	N/A	
Florida	85,174	85,581	0.5
Georgia	66,510	67,297	1.2
Kentucky	31,800	32,900	3.5
Louisiana	59,853	56,463	-5.7*
Mississippi	25,500	23,750	-6.7*
North Carolina	42,509	N/A	
South Carolina	41,975	44,073	5.0
Tennessee	39,300	40,700	3.6
Virginia	47,842	49,221	2.9
West Virginia	N/A	N/A	
Southwest			
Arizona	23,452	26,426	12.7
New Mexico	17,300	17,600	1.7
Oklahoma	36,853	34,225*	-7.1
Texas	104,536	107,242	2.6
Rocky Mountain			
Colorado	20,344	20,810	2.3
Idaho	9,000	9,500	5.6
Montana*	10,848	11,180	3.1*
Utah	12,462	11,941	-4.2
Wyoming	7,258	7,258	0.0

TABLE A-8

SELECTED FEATURES OF STATE WORKFORCES

	NUMBER OF EMPLOYEES AS OF 6/30/85	ESTIMATED NUMBER OF EMPLOYEES AS OF 6/30/86	PERCENTAGE CHANGE FROM FISCAL 1985 TO 1986
Far West			
California	142,208	140,474	-1.2
Nevada	9,026	9,151*	1.4
Oregon	27,200	27,000	-0.7
Washington	42,010	42,683	1.6
Alaska	N/A	N/A	
Hawaii	13,277	13,676	3.0

Notes:

D.C.:	Represents permanent full time employees, and excludes part time employees.
LA:	Attritioned out 4,000 positions. Agencies were allowed, with the Commissioner of Administrations approval, to fill one out of four vacated positions.
MA:	These figures exclude legislative, judicial, and elected official's staffs.
MN:	Figures are as of March 1986, and include both full time and part time employees.
MS:	Large decrease due to early retirement program.
MT:	Layoff of 600 positions may occur.
ND:	Figure is as of May 30, 1986.
NY:	These figures are as of March 31 of each year and exclude legislative, judicial, seasonal, and part-time employees.
NV:	These are authorized positions, not FTE.
OK:	Figures are from May 1985 to May 1986.
PA:	Employee figures are for filled salaried positions, not FTE.
RI:	Figures are as of 12/22/84 to 12/21/85.

TABLE A-9

FISCAL 1987 STATE EMPLOYEE COMPENSATION PACKAGE**

STATE AND REGION	TOTAL INCREASE	MERIT	ACROSS-THE-BOARD	OTHER	NOTES
New England					
Connecticut	7.0%	1.0%	5.0%	1.0%	Depends on 28 separate collective bargaining contracts in various stages of negotiations.
Maine					
Massachusetts	7.39	0.0	4.0	3.3	"Other" due to management reclassification of all titles.
New Hampshire	5.0		5.0		
Rhode Island	5.0		5.0		3% in July 87; 2% in Jan 87; results in 4% base increase.
Vermont	6.0			6.0	Major reclassification/pay equity adjustments which vary widely from 3% to 15%
Mideast					
Delaware	4.5		4.5		
Dist. of Col.	4.0		4.0		
Maryland	5.5		3.5	2.0	"Other" for selected job classifications.
New Jersey	N/A				Main union still negotiating; Smaller unions agreed to 4.5% increase.
New York	5.0-5.5		5.0-5.5		Contracts ratified in 1985. Awards are flat dollar awards ranging from $750 to $1,000.
Pennsylvania	3.5		3.5		
Great Lakes					
Illinois	4.0-5.0		4.0-5.0		Non-bargaining units received 5%; bargaining units received 4%
Indiana	6.7	2.0	4.7		5% of workforce will receive a 2% merit award.
Michigan	5.0		5.0		Certain employees (19,000) will receive pay equity adjustments.

Ohio	7.6		7.6		Negotiations still in progress. Represents average of agreements reached. Employees have not had increase since 3/84.
Wisconsin	6.0	1.5	4.5		
Plains					
Iowa	5.6	1.6	4.0		4.0% will be awarded Jan 1987.
Kansas	3.0		3.0		
Minnesota	4.7		4.0	0.7	"Other" includes merit increases and comparable worth adjustments.
Missouri	4.3		4.3		$720 for most employees; no increase for elected officials; judges, and top executive branch officials.
Nebraska	3.0	0.0	3.0		"Merit" may be funded through agency vacancy savings.
North Dakota	4.0		4.0		Governor requested increase be postponed from 7/86 to 1/87.
South Dakota	4.0				Increases based on merit and current pay relative to midpoint of pay range.
Southeast					
Alabama	0.0		0.0		0.5% anniversary award is given to 60% of workforce.
Arkansas	3.0		3.0		The 2.5% to 3% merit increase was rescinded.
Florida	5.5	3-5*	5.0**	***	*Only for small portion of workforce; **minimum of $700; ***class adjustments for 25,000 employees averaging 5% on minimum pay grade.
Georgia	8.5	4.5	4.0		Only 70% of workforce eligible for merit.
Kentucky	5.0		5.0		Merit pay not funded in FY87, but will be funded in FY88.
Louisiana	0.0	0.0	0.0		
Mississippi	0.0		0.0		
North Carolina	3.2		3.2		This is governor's proposal. Legislature recommended $0. Currently negotiating.
South Carolina	3.0		3.0		
Tennessee	5.0		4.5	0.5	"Other" is for pay equity.
Virginia	6.58	1.92	4.57		
West Virginia	$600		$600		Correctional officers received $600, plus $1,000.

TABLE A-9 cont.

FISCAL 1987 STATE EMPLOYEE COMPENSATION PACKAGE**

STATE AND REGION	TOTAL INCREASE	MERIT	ACROSS-THE-BOARD	OTHER	NOTES
Southwest					
Arizona	6.6	3.0	3.0	0.6	"Other" equals 0.1% for equity and reclassification revisions, and 0.5% for health insurance premium increase.
New Mexico	5.0		5.0		
Oklahoma	0.0		0.0		
Texas	3.0		3.0		Agencies may use lapsed funds for merit awards.
Rocky Mountain					
Colorado	4.32	0.0	4.32		Increase delayed 8 months until March 1987.
Idaho	0.0	0.0	0.0		State employees received one 7% increase in the last four years.
Montana	3.25	2.0	1.25		2% is a longevity award. State employees are asked to forego increases.
Utah	0.0	0.0	0.0		
Wyoming	3.32		3.32		Delayed until 3/87, pending revenue availability.
Far West					
California	6.7	1.5	5.0	0.2	"Other" refers to new/enhanced benefits.
Nevada	5.0		5.0		One-half of workforce also received a 5% merit award for satisfactory performance.
Oregon	3.0		3.0		"Merit" increases may be given by agency from vacancy savings.
Washington	2.5		2.5		
Alaska	0.0		0.0		The Governor has called for 10% reduction in salaries.
Hawaii	5.0		5.0		

Notes:

**Excludes employees of schools and other educational institutions. Excludes annual step or anniversary increases that are automatically awarded to most of the workforces.

Notes to Appendix Tables A-1 and A-2

Explanation of Budget Adjustments
($ in millions)

Arizona. Fiscal 1986—Continuing appropriations of $11.7 million and reversions to the general fund of $10.3 million.

Hawaii. Fiscal 1986—Appropriation lapses and selective spending cuts.
Fiscal 1987—Prior year's appropriation lapses.

Idaho. Fiscal 1987—Sales tax temporarily raised from 4 percent to 5 percent between April 1986 and June 1987.

Kentucky. Fiscal 1986—Kentucky Supreme Court decision regarding agency fund transfers to general fund.

Maine. Special reserve requirement.

Michigan. Fiscal 1986—Income tax reduction ($191 million); tax amnesty, $50 million; and working capital reserve balance, $48 million.

Mississippi. Reappropriations and transfers to reserve and stabilization funds.

New Mexico. Non-recurring revenue.

Ohio. Fiscal 1986—Adjustments to prior year encumbrances and an increase in excess lottery profit transfers

Pennsylvania. Fiscal 1986—Investment tax credit ($25 million); lapses, $40 million, tax cuts ($167 million).
Fiscal 1987—U.C. tax credit ($25 million); tax cuts ($140 million), and rollover from fiscal 1986, $8 million.

Vermont. Fiscal 1986—Recission of appropriations of $2.5 million and estimated reversions of $1.2 million.
Fiscal 1987—Estimated reversions of $1.3 million.

Virginia. Fiscal 1986—Transfers from non-general fund accounts and repayment of loans.
Fiscal 1987—Miscellaneous transfers from non-general fund accounts.

Wisconsin. Miscellaneous receipts and interest earnings.

Wyoming. Fiscal 1987—Reserve for encumbrances and carryover.

Explanation of Transfers Into/Out of the General Fund
($ in millions)

Arizona. Fiscal 1986—Transfer from workers' compensation fund of $2.3 million into the general fund.

California. Transfers typically represent revenues initially collected in one fund and then allocated to several funds (including the general fund), the transfer of surplus assets or loans and repayments of loans between funds.

Connecticut. Fiscal 1986—$100 million for education excellence trust fund; $50 million for liability trust funds for municipalities; and remainder for various local government initiatives.

District of Columbia. Transfers in—sales of surplus property and lottery profits, transfer out—to Housing Finance Agency, D.C. General Hospital, University of D.C., convention center, and capital projects fund.

Florida. Transfers shown between the general fund and working capital fund (WCF). It does not account entirely for the change in the WCF balance due to resources deposited and expenditures made directly from this fund.

Idaho. Fiscal 1986—To avoid a deficit, $11 million of the final public school payment will be carried into fiscal 1987.

Illinois. Fiscal 1986 and 1987—Transfers out are statutory percentage of income and sales tax receipts, and general obligation debt service.
Transfers in are percentage of lottery sales, reimbursements due to accounting practices.

Indiana. Transfers to property tax replacement fund and budget stabilization fund.

Iowa. Transfers to economic emergency fund.

Kansas. Transfers to general fund from sources within the Department of Administration.

Maine. Transfers to operating capital and working capital reserve.

Michigan. Transfer to budget stablization fund.

Mississippi. Fiscal 1986—Reserve transfer to general fund.

Missouri. Fiscal 1987—Reflects lapse from prior year.

New Mexico. Operating reserve transfer.

New York. Principal transfers are to support general obligation debt service and capital projects.

North Dakota. Fiscal 1986—Transfers from the general fund to operating budgets to reflect carryover of appropriations from previous biennium.

Oklahoma. Fiscal 1986—Transfers to the human services fund.

Pennsylvania. Fiscal 1986—($105 million) transfer into economic revitalization programs to replace previously anticipated bond funding; ($25 million) into sunny day fund, a reserve for economic development projects; ($25 million) into budget stabilization fund.
Fiscal 1987—($25 million) into sunny day fund and ($25 million) into budget stabilization fund.

Rhode Island. Fiscal 1986—Transfer into cash stabilization fund.
Fiscal 1987—Transfers into cash stabilization fund and asset protection fund.

South Carolina. Transfer to budget stabilization fund to meet legal requirements of 4 percent of previous year's revenue.

Texas. Net transfers in and out for departmental and operating funds.

Utah. Transfers to general fund from overhead, flood fund, and funds from delaying building construction.

Vermont. Fiscal 1986—Transfer to transportation fund of $2 million, remaining balance to be transferred to GRH contingency fund.

Wyoming. Fiscal 1986—($76 million) transfer to water development account and ($40 million) to budget reserve account.
Fiscal 1987—Transfer to budget reserve account.

National Governors' Association
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Fiscal Survey of the States

March 1987

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National Governors' Association

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Fiscal Survey of the States
March 1987

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EXECUTIVE SUMMARY

The fiscal health of the states continues to deteriorate in the face of reduced revenues and slow economic growth and the upcoming year does not promise much hope for improvement. The anemic national economy has taken its toll on states -- forcing an unusually high number of states to cut budgets and propose major tax increases. Moreover, ending balances are precariously small, offering virtually no protection from adverse economic conditions. In fact, governors in thirty-nine states have placed budget and tax issues as their top priority in 1987 legislative sessions.

The regional economic schism, reported previously, still continues. New England and Mid-Atlantic states are enjoying the fruits of a strong economy. However, states in the Southwest and Rocky Mountain regions are still plagued with the fallout from the near-collapse of the oil industry. And farm states continue to cope with a weak agricultural sector.

Major findings of this survey include:

- Twenty-three states were forced to cut fiscal 1987 budgets after the budget was enacted into law to avert a pending deficit. This amount of budget slashing is rare during non-recession years.

- After several comparatively quiet years on the state tax front, 1987 will qualify as a landmark year for state tax changes. Twenty-eight states are proposing in this legislative session to raise taxes significantly. Currently, there are seventeen states considering a personal income tax increase, thirteen states raising sales taxes, sixteen state hiking motor fuel taxes, while nine states are looking at cigarette excise tax increases.

- The past several months, there has been much discussion about how states will respond to federal tax changes and the resulting state revenue "windfall." Based on governors proposed recommendations, over 80 percent of the windfall, or $4.5 billion of the total $5.6 billion, will be returned to the taxpayers.

- Expenditure growth for fiscal 1988 is the smallest increase since the recession. Governors have proposed to increase spending by 3.9 percent -- but when inflation is taken into account -- there is no real growth in next year's budgets.

- Fiscal 1987 year-end balances are projected to be a dangerously low $1.6 billion, which totals only 0.8% of expenditures. This is the smallest amount since

NGA/NASBO began collecting and publishing survey data. However, two states -- Alaska and Texas -- are distorting the picture because both have large pending deficits. However, even if these deficit figures are ignored, balances remain small. Fiscal 1988 is projected to increase marginally to $3.4 billion or 1.5 percent of expenditures.

- Thirty-two states now have established budget stabilization funds. Although they are widely endorsed by states, few states have been financially able to place sufficient dollars into these funds. For Fiscal 1987, budget stabilization funds contain $2.0 billion, which equals only 0.9 percent of expenditures. In Fiscal 1988, the funds will be $2.2 billion or 1 percent of expenditures.

I. STATE EXPENDITURE TRENDS

Annual Expenditure Growth Rate. After several years of relatively high growth resulting from post-recession budget rebuilding, state expenditure growth is coming to an abrupt halt. Governor's proposals for fiscal 1988 indicate that state spending will rise only 3.9 percent from the previous year, the smallest increase since fiscal 1983, a recession year. In real terms (adjusted for inflation), this means that state budgets will not see any growth in the next fiscal year.

Recent figures indicate a clear trend in reduced state spending. The nominal budget growth rate for fiscal 1986 was 8.9 percent. The fiscal 1987 rate is 5.8 percent. When adjusted for inflation, these figures are 3.7 percent for fiscal 1986, and 1.9 percent for fiscal 1987.

This slowdown in state spending closely mirrors the fiscal situation of the national economy. In fiscal 1987, real federal expenditures are projected to rise only 1.6 percent and if the President's fiscal 1988 budget is adopted, real budget growth will actually decline by 2.2 percent. Many feel it is unlikely that Congress will adopt this budget recommendation, and it appears just as unlikely that Congress will meet the Gramm-Rudman-Hollings budget target for this year. Over the last ten years, real state spending has increased on average by only 1.3 percent, while federal spending has risen by 2.7 percent -- more than twice the rate of states. Table 1 illustrates the annual growth changes for both levels of government.

As helpful as national averages are in summarizing state fiscal conditions, it is important to remember that there is always a wide range of differences among states. For example, in fiscal 1988, there are nine states where spending in nominal dollars will be less than the prior year if legislatures adopt the governors' recommended budget. Alaska, for instance, could have a dramatic nominal spending drop of 21 percent that would come immediately after a fiscal 1986 decrease of 15 percent. Texas could experience a spending decline of 27 percent, and Wyoming, a spending cut of 24 percent. In addition, California -- the state with the largest general fund -- is reporting a slight spending increase of only 1.2 percent, which significantly skews national figures.

Fourteen states plan on fiscal 1988 spending increases ranging from 0 to 5 percent, and five states could end up with increases of over 10 percent. Table 2 provides additional expenditure growth information.

Most importantly, in real terms, nineteen states could actually decrease spending levels. Most of these states lie west of the Mississippi. States with higher spending

Table 1
COMPARISON OF STATE AND FEDERAL NOMINAL AND REAL ANNUAL BUDGET INCREASES, FISCAL 1979-1988

	State		*Federal*	
Fiscal Year	*Nominal Increase*	*Real Increase*	*Nominal Increase*	*Real Increase*
1988	3.9%est.	0.0%est.	0.9%est.	-2.2%est.
1987	5.8 est.	1.9 est.	2.6 est.	1.6 est.
1986	8.9	3.7	4.6	2.5
1985	10.2	4.6	11.1	7.5
1984	8.0	3.3	5.3	2.3
1983	-0.7	-6.3	8.4	4.7
1982	6.4	-1.1	10.0	1.5
1981	16.3	6.1	14.8	2.6
1980	10.0	-0.6	17.4	4.6
1979	10.1	1.5	9.8	1.9
1979-87 average	7.9%	1.3%	8.5%	2.7%

NOTE: The state and local government implicit price deflator was used for state expenditures in determining real changes and the federal government implicit price deflator was used for federal expenditures. Real increase figures do not take into account population growth.

Table 2
ANNUAL GENERAL FUND EXPENDITURE INCREASES

	Nominal Change			*Real Change*		
Budget Growth Rate	*Fiscal 87 (Budgeted)*	*Fiscal 88 (Proposed)*	*Fiscal 89 (Proposed)*	*Fiscal 87 (Budgeted)*	*Fiscal 88 (Proposed)*	*Fiscal 89 (Proposed)*
Less than 0%	7	9	2	16	19	9
0-5%	17	14	8	24	22	7
5-10%	19	20	6	8	7	1
Over 10%	7	5	2	2	0	1
Total states	50	48*	18**	50	48*	18**
Average growth rate	5.8%	3.9%	6.3%	1.9%	0.0%	2.2%

* Excludes Alabama and Louisiana

** Figures represent states with biennial budgets

NOTE: The state and local government implicit price deflator was used to change nominal dollars into real dollars. Real increase figures do not take into account population growth.

levels are primarily in New England and the Mid-Atlantic region. This regional dichotomy is the continuation of a year-long trend in energy-producing states which suffered fiscal losses due to the sharp drop in the price of oil. Little has changed during the year.

Budget Cuts and Expenditure Delays. One of the clearest indications of the slowdown in state spending is the number of states that have cut their budget during the year. Almost half of the states were forced to cut their budgets after they had been enacted into law during fiscal 1987. In total, twenty-three states made budget cuts ranging from $2.3 million in South Dakota to $668 million in Texas. In percentage terms, the largest cuts occurred in Alaska, 17.4 percent; Arizona, 6.6 percent; Arkansas, 5.3 percent; Louisiana, 8.9 percent; Montana, 9.7 percent; North Dakota, 6.4 percent; Texas, 5.8 percent; and Wyoming, 9.5 percent. Total cuts amounted to $3.0 billion. All but six of the states that made cuts are in the western half of the country. Table 3 provides specific state information. Graph 1 shows recent trends in the number of states cutting their budget.

In most states, authority to cut the budget lies with the governor and is usually used as a means to manage state expenditures without calling a special legislative session. Governors often have discretion over how the budget cuts are enacted and what programs may be held harmless from the cuts. This year, as in past years, governors attempted to protect the education budget from cuts or reduced these budgets less than those of other state agencies. This was true in California, Illinois, Louisiana, Minnesota, Montana, Oklahoma, Texas, and Wisconsin. In other instances, income maintenance programs, corrections, and aid to local governments were also sheltered from budget cuts.

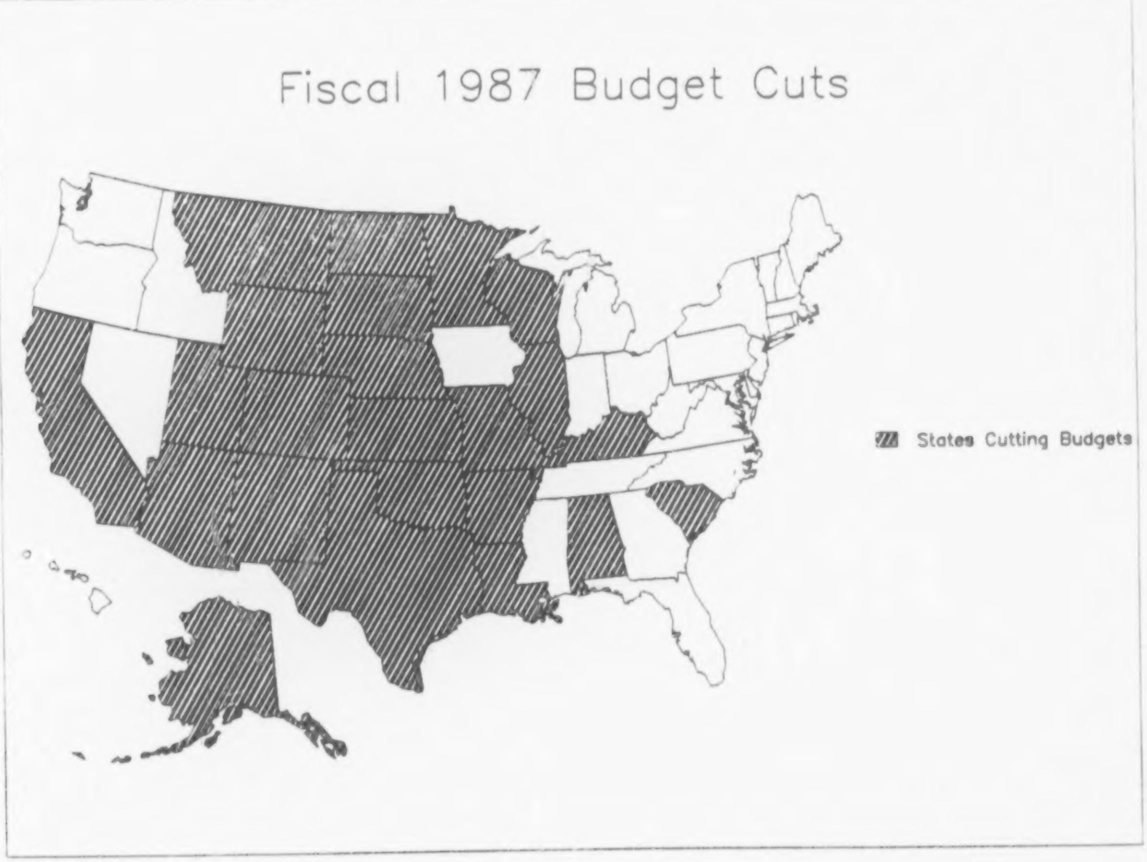


Table 3
STATE BUDGET CUTS ADOPTED IN THE FISCAL 1987 BUDGET AFTER APPROPRIATION BILL HAS PASSED

State	*Amount (in millions)*	*Cut as % of General Fund Expenditure*	*Action Taken By*	*Selective or Across-the-Board*	*Date Enacted*	*Notes*
AL	$84.6	3.3%	Governor	Across-the-Board	10/86	Cut 5% from Education Fund.
AK	415.0	17.4	Governor	Across-the-Board	7/86	Cash assistance to individuals exempted; aid to local government and school districts cut 10%; $213 million cut from capital budget.
AR	87.3	5.3	Governor	Across-the-Board	8/86 1/87	Cuts made according to original budget priorities.
AZ	157.0	6.6	Both	Selective	1/87	Excludes elected offices, some health and income maintenance programs, and education K-12.
CA	103.0	0.3	Governor	Across-the-Board	12/86	24 hour, care facilities exempted; payments to individuals and governments exempted.
CO	37.6	2.0	Governor	Across-the-Board	11/86	
IL	332.0	3.2	Governor	Across-the-Board	6/86	Education cut less.
KS	60.0	3.3	Both	Across-the-Board	1/87	Exempted selected aid to local governments.
KY	88.5	3.0	Governor	Selective	1/87	Exempted local school district payments.
LA	351.0	8.9	Governor	Selective	10/86 1/87	Exempted judiciary, revenue department and corrections.
MN	116.0	2.2	Both	Both	4/86	
MO	49.0	1.5	Governor	Selective	1/87	Exempted refund accounts, equalization aid to local school districts, AFDC grants, and selected other programs.
MT	37.1	9.7	Both	Both	7/86 12/86	Includes 3% cut for education foundation aid and elimination of state employee COLAs. Second cut exempted institutions and public schools.
NE	6.5	0.7	Both	Selective	12/86	Exempted corrections.
NM	26.1* (biennium)	2.0	Legislature	Across-the-Board	6/86	Exempted Medicaid and AFDC
ND	45.0* (FY87)	6.4	Both	Both	3/86	
	13.0				12/86 2/87	
OK	27.9	1.7	Both	Selective	3/87	Exempts public education, higher education, and vocational tech.
SC	110.8	4.1	Both	Across-the-Board	11/86 2/87	Exempted corrections, mental health, and small agencies.
SD	2.3	0.6	Governor	Across-the-Board	12/86	Exempted all special appropriations including state aid to education and to local government.

Table 3 (continued)
STATE BUDGET CUTS ADOPTED IN THE FISCAL 1987 BUDGET AFTER APPROPRIATION BILL HAS PASSED

State	Amount (in millions)	Cut as % of General Fund Expenditure	Action Taken By	Selective or Across-the-Board	Date Enacted	Notes
TX	668.0	5.8	Governor	Selective	2/86	Exempted K-12 education, highways, and retirement systems. Smaller cuts in corrections and mental health and retardation.
UT	52.0	4.0	Both	Selective	11/86 2/87	Governor cannot cut education, but general fund will not transfer to education.
WI	230.0* (biennium)	2.3	Legislature	Selective	2/86	State operations were cut about 5.8% and aid to local governments and individuals cut less or exempted.
WY	67.0* (biennium)	9.5	Both	Both	5/86	

*These figures are for two fiscal years.

The number and size of budget reductions that occurred in fiscal 1987 is unusually high for a non-recession year. There are two reasons for this. First, the fiscal situation in certain regions of the country is clearly bleak and regional recessions have taken hold. Second, since the taxpayer revolt in the late 1970s and early 1980s, state budget officials have altered their budget practices by greatly reducing the normal size of state ending balances. With ending balances so small, state officials have few options to chose from in keeping their budget balanced, even when only minor setbacks materialize.

Another means to balance a current year budget is to postpone expenditures until a future time. This year seven states took action to delay planned expenditures. Alaska, Arizona, Louisiana, and Utah postponed some capital purchases, while Kansas shifted a state contribution to the retirement system into the next fiscal year. California delayed one week's Medi-Cal checkwrites, and Oregon readjusted human resource program priorities after it had a higher caseload than projected.

Governor's Budget Priorities. When governors submitted their fiscal 1988 budgets, they concurrently submitted their budget program priorities. "Fiscal Stability" combined with "Taxation/Revenues" and "Income Tax Windfall" issues is the number one concern for governors of thirty-nine states. Many states are forecasting a grim revenue picture for next year and governors have proposed plans to deal with the unstable fiscal situation. Table 4 provides the state breakdown between these three issues.

The income tax windfall issue was brought about by changes in the federal tax code. Consequently, many governors have proposed a major overhaul of their own income tax systems. Chapter 5 of this report discusses this issue in detail.

As an outgrowth of their concern for the fiscal environment, governors have placed economic development issues high on their list. Twenty-two states responded that economic growth and attracting new jobs was integral to their state plan.

Table 4
GOVERNOR' BUDGET PRIORITIES FOR FISCAL 1988
(three issues per state)

EDUCATION (29 states)

Alabama, Arkansas, California, Connecticut, Delaware, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Louisiana, Michigan, Minnesota, Missouri, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, Washington, West Virginia, and Wyoming

TAXATION/REVENUE (21 states)

Arizona (to reduce taxes), Florida, Indiana, Iowa, Louisiana, Maine (to avoid tax increase), Maryland, MIchigan (to reduce taxes), Montana, Nebraska, New Jersey, New Hampshire (to reduce taxes), New York (to reduce taxes), North Dakota, Ohio, Oklahoma, Oregon (to avoid tax increase), Rhode Island (to avoid tax increase), South Dakota, Utah, and Wyoming (to avoid tax increase)

ECONOMIC DEVELOPMENT (22 states)

Alaska, Arkansas, Colorado, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Massachusetts, Mississippi, Montana, New Mexico, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, and Texas

INCOME TAX WINDFALL AS A RESULT OF FEDERAL TAX REFORM (15 states)

Arizona, Colorado, Connecticut, Delaware, Hawaii, Idaho, Iowa, Maryland, Michigan, Minnesota, Missouri, North Carolina, Vermont, Virginia, and Wisconsin

FISCAL STABILITY (10 states)

Alabama, Alaska, California, Kansas, Kentucky, Mississippi, Montana, Nebraska, Nevada, and Texas

HUMAN RESOURCE PROGRAMS (8 states)

Alabama, Arkansas, Delaware, Kansas, Massachusetts, Missouri, North Dakota, and Washington

CORRECTIONS (6 states)

California, Georgia, Illinois, Oregon, Utah, and West Virginia

OTHER ISSUES

Control State Spending: Arizona, Rhode Island, South Dakota, and Wyoming.
Efficiency/Reorganization of State Government: Colorado, New Mexico. Oklahoma, and Maryland
Local Government: Connecticut, Florida, and New Jersey
Rainy Day Fund: Florida
Mental Health: Illinois
Sports Stadium: Maryland
Highways: Mississippi and New Jersey
Financial Reform: New York
Teachers and State Employees: North Carolina and Virginia
21 Drinking Age: South Dakota
Environment: Pennsylvania and Vermont
Health: Nevada, Virginia, Washington, and West Virginia

As in recent years, education remains a top priority of governors, with twenty-nine states selecting education as one of their top three priorities. However, several financially strapped states reported education was a budget priority simply because the governor recommended that its allocation not be cut, rather than earmarking additional dollars for the program.

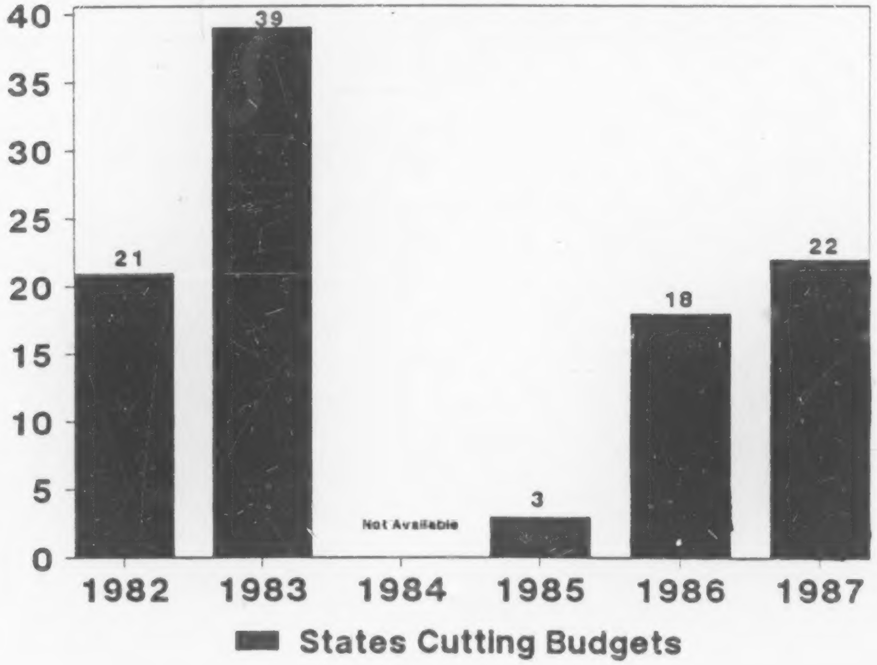
Other areas on the priority list include human resource programs, particularly state welfare reform, corrections, controlling state spending, and making state government more efficient.

State Employees. Personnel costs are one of the largest components in a state budget. The size of employee compensation packages, or other adopted measures affecting the workforce, generally reflect the health of state finances.

Packages that are now being proposed and negotiated are modest in size. No across-the-board increase, or cost-of-living adjustment, is over 6 percent in fiscal 1988. Only six states are reporting compensation adjustments of as much as 5 percent, and two of those states are in the second or third year of negotiated multi-year contracts. Twenty-two states are proposing across-the-board increases ranging from 1.5 percent to 4.8 percent. Thirteen states will provide for no general salary increase primarily due to poor fiscal conditions. Some employees in a few of these states will be eligible for a merit or step increase, but in some instances state employees will not receive any additional compensation. This information is incomplete, since employee negotiations are still taking place in a number of states. Appendix Table A-10 summarizes proposed employment packages.

Several states – Delaware, Maryland, and Oregon – are proposing some minor grade restructuring within their civil service systems.

State Budget Cuts, FY 1982 to FY 1987



Employee lay-offs occurred in fiscal 1987 in several financially hard-pressed states, and others are being proposed for fiscal 1988. In the current fiscal year, six states -- Alaska, Arkansas, Louisiana, Mississippi, Montana, and New Mexico -- had to lay-off a substantial number of state employees ranging from 60 to 70 employees in New Mexico to 752 in Louisiana. Alaska, Arizona, Montana, North Dakota, and Oklahoma reported that layoffs are likely in the upcoming fiscal year.

Eleven states have instituted hiring freezes to reduce workforce costs. These states are Arkansas, Florida, Illinois, Iowa, Louisiana, Michigan, Ohio, Pennsylvania, Tennessee, Utah, and Wyoming. The degree of stringency of the hiring freezes varies by state.

Aside from eliminating pay increases and instituting lay-off and hiring freeze policies, states are pursuing other cost-cutting measures that can greatly affect a state employee. Some of the policies currently being pursued by states include:

Alaska -- Now negotiating employee contracts. The governor is petitioning for a 15 percent reduction in salary and benefits.

Arkansas -- Various "early-out" retirement bills will be considered by the 76th General Assembly.

California -- General pay increase will be delayed six months to be effective January 1988.

Florida -- The governor plans to identify and eliminate many of the positions vacant longer than six months.

Iowa -- Adopted early retirement incentives.

Louisiana -- Adopted early retirement incentives.

Montana -- The governor has proposed that employer contributions to the state retirement system be reduced to 5 percent.

New York -- Certain agencies will be required to keep positions vacant for a period of up to 10 weeks to achieve budget savings.

Ohio -- Proposal pending to authorize an early retirement program.

Rhode Island -- Administration has a 10 percent workforce reduction in effect and 90 percent of the goal has been reached. Early retirement program effective January 1987 will allow for further reductions.

South Carolina -- General pay increase delayed to mid-fiscal year.

Tennessee -- Current budget proposal recommends reduction of 1,020 positions.

Texas -- One month's payroll delayed from fiscal 1987 to fiscal 1988.

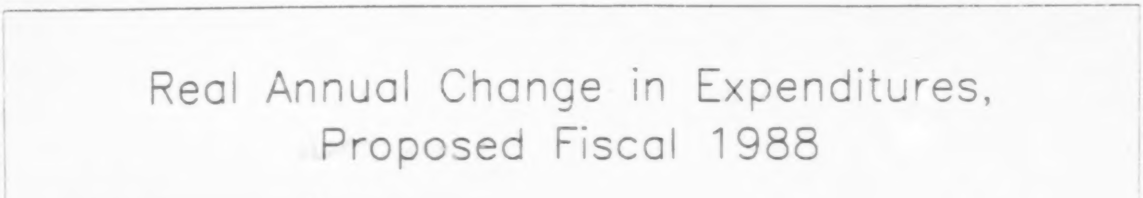
Wyoming -- Two payless holidays instituted for fiscal 1987. Proposing an early retirement program.

State Tax and Expenditure Limitations. Forty-nine states have balanced budget requirements. Many of these also have other limitations. The tax revolt sparked by passage of California's Proposition 13 in 1978 quickly influenced eighteen states to adopt state tax or expenditure limitations. Massachusetts is the most recent state to adopt such a limitation.

Typically, these limitations operate by constraining the annual spending increase allowed for state government budgets. The spending ceilings are usually determined by such factors as the annual increase in the consumer price index, the increase in state personal income, and the change in population. Thus far, few of these limitations have directly affected the spending habits of state government, especially since the recession had depressed state spending several years ago. However, several states are approaching their spending limits, the most notable being California where the proposed fiscal 1988 budget is only $80 million under the ceiling. Because state revenues are projected to come in slowly this year, analysts suggest that the limit will not be triggered in fiscal 1988.

Missouri expects to exceed its allowable revenue ceiling this year if it does not return a portion of the windfall revenues resulting from federal tax reform to the taxpayers. There is some indication that this issue will be placed on the ballot for a popular vote.

Although Massachusetts has just adopted a spending limitation, the state will surpass its revenue ceiling in fiscal 1989 unless changes to the lid are adopted. Massachusett's plight is unusual. The legislature originally passed a limitation measure during the 1986 session. A variation was also approved on the November ballot. The two versions must be reconciled at some point. The most likely change would exempt aid to local governments and local option taxes (which is counted as state revenue) from the lid.


Real Annual Change in Expenditures, Proposed Fiscal 1988

Two states are currently considering adoption of a tax and expenditure limitation. The governor of New York has proposed limiting expenditure increases to changes in state personal income growth. The governor of New Mexico has proposed tying the state limit to growth in state wages and salaries. Revenues in excess of the cap would accrue to a tax stabilization reserve, and when monies in this fund exceeded a certain level, revenues would be returned to the taxpayers. South Carolina is considering adoption of a tax and expenditure limit hybrid. The governor is trying to institute a process whereby all revenue increases must pass the legislature with a two-thirds vote.

Aid to Local Government. The $4.6 billion federal program of general revenue sharing to local governments has been terminated by Congress. Additional federal cuts are likely to occur in other federal-local programs. It appears that the federal-local partnership that evolved during the 1960s is slowly being phased-down. As a result, local governments will increasingly depend on state governments for funds. For instance, state aid to local governments, including school aid, amounted to $116 billion in fiscal 1985. Federal intergovernmental aid to local governments was $22 billion. As the federal monies will be shrinking, states will be faced with two options: either to appropriate more state dollars for local governments to spend or to empower them with greater taxing authority.

Specifically, several states are proposing measures to help mitigate the loss of general revenue sharing. Some of these measures include:

Connecticut -- Establishing a property tax relief fund.

Idaho -- Local governments will receive $9 million from the fifth cent of the sales tax. The state will pick up $15 million in Medicaid caseload increases from counties in fiscal 1987.

Massachusetts -- Unrestricted aid of $60 million in fiscal 1987 to be continued in fiscal 1988. Other restricted direct local aid spending rose $296 million in fiscal 1987. Recommend an additional $199 million increase in fiscal 1988.

Ohio -- Proposing a change in formula for the state's local government fund which shares revenues with locals. Change should give locals more stability and a one-time windfall of $35 million in 1987.

South Carolina -- Local Government Finance Act will open new source of revenue to local government.

Wyoming -- Proposing to continue dedicating severance taxes to local government.

Aside from the loss of general revenue sharing, states are proposing other measures to assist local governments. New state-local initiatives include:

California -- Elimination of many state mandates. Shift of revenues to local communities for discretionary public health programs. Stabilization of local matching requirements.

Florida -- Optional 1 percent sales tax for infrastructure.

Hawaii -- Proposing to return revenues generated by traffic enforcement to county governments.

Iowa -- Proposing $45 million for local property tax relief.

Maine -- State to pick-up local government's share of new anti-drug abuse program.

New Jersey -- New program to aid distressed cities and new program to provide additional police protection in cities with urban enterprise zones.

North Dakota -- Local governments will receive a portion of state gasoline tax.

Rhode Isalnd -- Five-year phase-in of increased school aid wil' compensate communities. Began in 1986. General state aid was increased by over 100 percent from 1985 to 1987 percent; from $5.6 million to $11.2 million.

Utah -- Increase in local property tax at local school board option. State equalization provided for education.

Virginia -- Created a transportation trust fund in which $35 million goes to local governments for mass transit and $10 million to local airports.

Wisconsin -- Establishing a Local Property Tax Relief Commission and Local Mandates Study committee.

In a limited number of cases, local governments will also benefit from federal tax reform. States that decide to retain all, or a portion of, the revenue windfall resulting from federal tax reform and that also allow an income tax at the local level will automatically pass some of this windfall on to local government. Two states that may be affected by this change are Iowa and Maryland. Similarly, those states that will retain all or a portion of the windfall and earmark a portion of the state income tax to local governments will also pass on more revenue to cities and counties. These include Illinois and Maryland.

II. STATE REVENUE TRENDS

Annual Revenue Growth. State general fund taxes, fees, and charges grew by 4.5 percent in fiscal 1987 over the previous year. This is more than one full percentage point below expenditure growth for that year. This mismatch between expenditures and revenues can occur for a short time without causing a deficit because states can spend their carry-over balances.

The projected revenue growth for fiscal 1988 is substantially higher than expected expenditures. State revenue is forecast to grow by 6.2 percent, while expenditures will be 3.9 percent. Here the reverse occurs, allowing states to build up reserve funds. This is vital for the fiscal stability of the states. As the next chapter will show, fiscal 1987 ending balances are precariously small.

State revenue growth is contingent on the growth of the national economy. As has been well-publicized, the gross national product (GNP) has been performing with lackluster results, although few economists are predicting a recession. The most recent GNP figures show that the economy grew by an anemic 2.5 percent in fiscal 1986, the smallest growth figure since the recession years.

A good representation of this linkage of state revenues with the national economy can be seen by measuring current-year revenue collections with original revenue forecasts. As shown in Appendix Table A-9, total fiscal 1987 revenue collections for twenty-eight states are below original forecasts, thereby creating a revenue shortfall and forcing many states to cut their budgets. The vast majority of those reporting lower than expected revenues are located in the Plains, Southeast, Southwest, Rocky Mountains, and Far West regions. Those states reporting higher than anticipated revenues are predominantly in the New England and Mideast regions.

State Cash-Flow Changes. For the past six months, states have been faced with an unusual cash-flow situation resulting from federal actions. When the federal tax reform bill was passed last summer, taxpayers began to modify their investing and consumption habits to begin the transition to the new tax laws.

Many of these federal changes will affect state tax collections for two reasons. First, many states conform to the federal code to some degree and will adopt most of the newly enacted tax changes. Second, the federal tax is a much larger burden on taxpayers and can easily influence taxpayer behavior, despite any tax policy actions taken by states. Therefore, when the federal government eliminated the preferential tax rate for capital gains, taxpayers attempted to maximize their tax opportunities. Many opted to realize their gains before the new tax law took effect in January 1987. This means that in the last quarter of 1986, many more taxpayers than normal cashed-in their gains and paid more in both federal and state income taxes. While these actions should temporarily increase state cash flow, it is not clear what implications this has for future months and years. No one can determine future taxpayer behavior patterns. One theory that has been generally accepted is that fewer capital gains will be realized than in past years because taxpayers will hold on to their assets for much longer periods of time. This may negatively affect state tax collections for years to come.

The elimination of the sales tax deduction has also temporarily altered state cash-flow. Under the same pattern of capitalizing on current tax deductions, preliminary consumer spending increased by 2.2 percent in December 1986 -- the biggest increase in eleven years. However, January consumer spending dropped 2.2 percent -- the largest monthly decline since the Department of Commerce began keeping records. Auto purchases account for most of this tremendous swing in purchases. Other durable goods were also affected. In total, preliminary figures for new orders for durable goods declined 7.5 percent in January -- setting a seven-year record decline. Consumer interest deductions are also being phased-out, meaning that states will have to accommodate this swing in revenue collections. Consumers shifted forward their purchases into the last quarter of 1986 and it will take several months, or possibly longer, for cash flow to stabilize again. Depending on the cash flow situation of states, some may have difficulties dealing with this revenue swing, particularly in fiscal 1988, if consumer purchases do not bounce back.

State Tax Changes. Another unintended consequence of federal tax reform is the effect on state income taxes. Most states use part of the federal tax code as a basis for their own tax base, and when changes occur in the federal code, changes are necessary in state codes. Chapter 5 explains the issue in more detail and provides information on how governors propose responding to those changes.

Clearly, just the issue of the states' response to federal tax reform should qualify 1987 as a landmark year for state tax changes. Add to that an unusually high degree of interest in raising state sales and gasoline excise taxes and 1987 is ensured a place in state tax history.

Tax changes in last year's legislative session include increases in personal income tax in three states, with decreases in five states; nine increases in sales tax; and eight increases in gasoline excise tax. According to the Tax Foundation, the net tax increases for last year added $1.6 billion to state treasuries.

Thus far for this year, twenty-eight states are proposing tax increases, while far fewer states are considering tax decreases. Although no aggregate dollar amount is available, this should easily surpass last year's increase. Refer to Table 5 and Appendix Table A-8 for detailed state tax proposals.

Personal Income Tax. Seventeen states are proposing increases in personal income taxes. This includes fourteen states that are raising taxes by retaining all or a portion of the revenue windfall resulting from federal tax reform. Table 9 contains a full listing of these states. Windfalls as a percent of personal income taxes in some of these states are quite substantial. Other states retaining all or a portion of the windfall will realize only a small revenue increase. Nevertheless, without corresponding rate adjustments to the tax base, many individuals will find themselves paying more state income taxes.

State personal income tax increases are proposed in Alaska, Arkansas, Illinois, New Mexico, and North Dakota. The governor of Alaska, which abolished its personal income tax in 1979, has proposed creating a personal income tax that would include two tax

Table 5
1987 PROPOSED STATE TAX INCREASES

State	*Personal Income*	*Business*	*Sales*	*Motor Fuel*	*Cigarette*	*Miscellaneous*
Alabama						
Alaska	X			X		X
Arizona						
Arkansas	X		X			X
California						
Colorado	W					
Connecticut						
Delaware	W					
Florida			X			X
Georgia						
Hawaii						
Idaho	W		X		X	
Illinois	X/W		X	X		
Indiana	W		X	X	X	
Iowa	W			X	X	
Kansas				X		
Kentucky						
Louisiana	W					X
Maine						
Maryland	W			X		X
Massachusetts						
Michigan						
Minnesota		X	X		X	
Mississippi				X		
Missouri	W			X		
Montana	W		X	X		
Nebraska					X	
Nevada						X
New Hampshire						
New Jersey				X		
New Mexico	X/W			X		X
New York						
North Carolina						
North Dakota	X/W	X	X	X	X	X
Ohio					X	X
Oklahoma	W		X	X		
Oregon						
Pennsylvania						
Rhode Island						
South Carolina						
South Dakota			X		X	
Tennessee						
Texas			X	X		
Utah	W		X	X	X	X
Vermont						
Virginia						
Washington			X			
West Virginia	W	X				X
Wisconsin				X		
Wyoming						

W = Keeping all or a portion of the state windfall resulting form federal tax reform.

brackets. Arkansas and New Mexico are considering ways to broaden the tax base to raise revenues, and Illinois is proposing to raise the flat rate tax from 2.5 percent to 3percent. North Dakota raised its personal income tax from 10.5 percent to 14 percent of federal tax liability in a special session last December and its legislature planned on increasing that to 19 percent in its 1987 regular session. However, a citizen petition was circulated and submitted to the state which suspended the tax hike until a popular vote could be taken. Just recently, North Dakota voters approved the measure.

New York has a proposal to reduce personal income taxes. As part of the windfall tax package, the governor has proposed to reduce taxes further by $1.7 billion to be phased-in by 1991. The first phase will begin in 1987 with a tax reduction of $200 - 300 million. This year also marks the third year of a three-year tax reduction package.

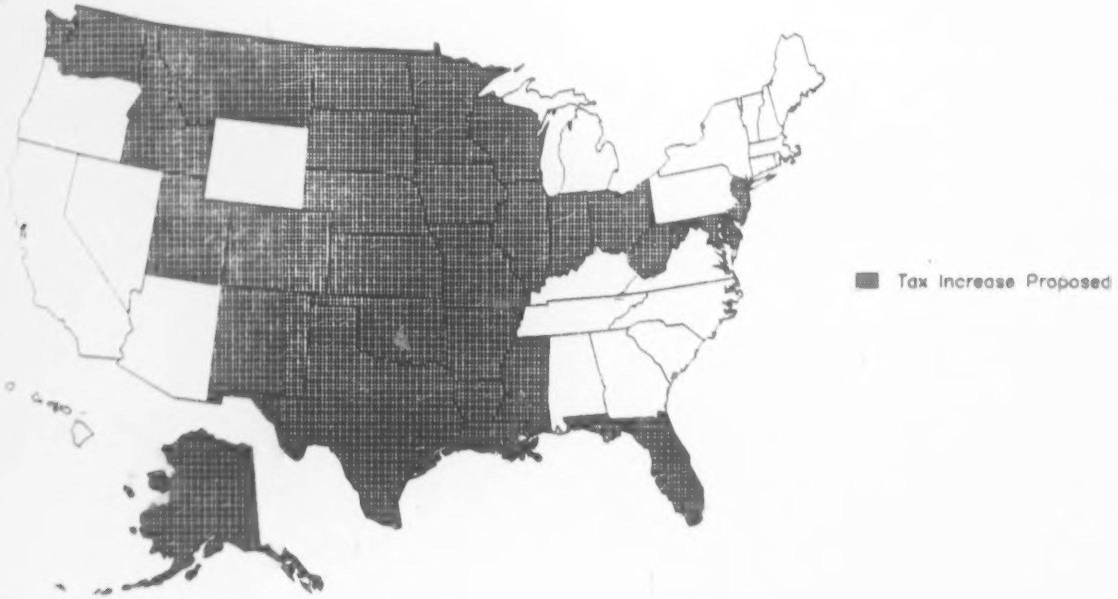
It is very important to note that twenty states are proposing to reform their tax systems this year, principally prodded by federal tax reform.

Business Taxes. Four states have plans to raise taxes on business, while six states will consider decreasing them this year. North Dakota has proposed eliminating half of the deduction for federal taxes paid by business, effectively raising tax revenue. Utah restructured the corporate income tax and raised rates, while Minnesota altered the tax base and lowered the top rate for a net tax increase. To maintain revenues, West Virginia is planning to postpone the adoption of a business tax reform plan adopted last year.

Tax decrease packages are pending in Oklahoma, Washington, Nebraska, and New Hampshire. Both Indiana and South Carolina are proposing new tax credits or exemptions for businesses as a spur to economic development.

Sales Taxes. One of the most important developments this year in the state tax field is the extraordinary number of proposals increasing sales taxes. This is accomplished primarily by extending the sales tax to services. Of the thirteen sales tax proposals now pending, nine include expanding the base to services. These measures generally include

1987 Proposed State Tax Increases



both personal and professional services such as services those provided by lawyers, accountants, consultants, and for dry cleaning, beauty salons, landscaping, and auto repairs. In most cases, medical services remain exempt.

Passing this kind of legislation is very difficult because of the wide range of opposition from the groups that are affected. Several states have attempted to incorporate services into their tax base in the last few years, but attempts to include most services have failed. Only South Dakota, New Mexico, and Hawaii now tax services.

Such legislation, if passed, could be a significant source of revenue for states. In fact, since such large sums of taxes could be raised, most proposals have corresponding general sales tax rate reduction plans. For example, Oklahoma could raise $180 million by taxing services. A rate reduction of one-quarter percent would cost the state only $40 million.

Proposals for taxing services include:

Washington -- Rate reduction from 6.5 percent to 6 percent.

Texas -- Extend the 5.25 percent tax rate for two more years. Taxes were scheduled to be reduced to 4.125 percent later this year (depending on the extent of service taxation, the rate may decrease earlier).

Florida --Rate decreases from 5 percent to 4.5 percent.

Arkansas -- Proposal to tax some services at one-half the normal sales tax rate.

Oklahoma -- Reduction of 3.25 percent to 3 percent.

North Dakota -- Increase the rate from 4 percent to 5 percent.

Indiana -- Rate reduction from 5 percent to 4.5 percent.

Illinois -- Rate reduction from 5 percent to 4.5 percent.

Other sales tax proposals include Montana, where the governor is proposing a referendum to institute a three percent sales tax, including the taxation of services. Currently, Montana is one of five states without a sales tax. Minnesota would like to extend the sales tax to selected tax expenditures, both on some services and other goods previously exempt. Utah has already passed a sales tax hike, increasing the tax from 4.625 percent to 5.125 percent. Idaho has a temporary one-cent sales tax that is due to expire and plans are to make this tax increase permanent. South Dakota wants a temporary one-year, one-cent increase with revenues dedicated to a special revolving economic development fund. The lone sales tax decrease comes from Arizona. The governor would like to lower the rate from 5 percent to 4 percent with no base adjustments.

Motor Fuel Taxes. Motor fuel taxes are also popular taxes this year in statehouses. Sixteen states are seriously considering such proposals, with most of the proposals asking for a relatively high rate increase, averaging between 4 to 6 cents. Refer to Table 5 and Appendix Table A-8 for state specific information.

Cigarette Tax. Nine states are seriously considering increasing the cigarette excise tax this year, with two of the increases double digit. These states are Idaho, from 9 to 18 cents per pack; Indiana, 10.5 to 15 cents; Iowa, 26 to 36 cents; Minnesota, 23 to 38 cents; Nebraska, 23 to 27 cents; North Dakota, 18 to 23 cents; Ohio, 14 to 19 cents; South

Dakota, 23 to 28 cents; and Utah 12 to 20 cents. Arkansas has already passed legislation to extend its 4 percent sales tax to cigarettes.

Federal Fund Assumptions Used in State Budgets. Since the federal government passed the Gramm-Rudman-Hollings (GRH) Act in December 1985, state tracking of federal funds has become exceedingly difficult. In the past, it was hard for states to devise federal fund figures to factor in their budgets because most state fiscal years do not match the federal fiscal year. In addition, Congress rarely produces a timely budget resolution that could indicate to state budget officers what share of the federal budget will be allocated for domestic programs.

But now with the passage of GRH and all of the questions that surround it, predicting receipts from federal grant-in-aid programs has become increasingly difficult. Because of this uncertainty about federal aid, which comprises 23 percent of total state general revenues, states are using varying assumptions to forecast these receipts for fiscal 1988. Of the states reporting, seventeen are working under the assumption that federal receipts will equal those received from the prior year with no inflationary adjustment, excluding changes in entitlement programs. This would result in a real cut in aid. Twenty-two states report that they are anticipating some federal cuts as compared to the 1987 level. On the optimistic side, four states expect 1987 funding levels with an inflationary increase. No states are budgeting for major cuts in intergovernmental aid.

Since last year, eight states have adopted mechanisms to deal with possible federal funds cut. The primary means to accomplish this objective has been to set up a specific contingency fund for this purpose or provide for authorization to transfer from other funds. The states that have been financially able to take preventive steps are Connecticut, Delaware, Florida, Massachusetts, Nevada, Rhode Island, Vermont, and Virginia.

III. YEAR-END GENERAL FUND BALANCES

Watching the size of the aggregate state general fund ending balance can provide a good barometer to measure the fiscal health of the states. Sometimes the size of the ending balance can be misleading on an individual state basis, but when tallied together, they provide a good indication of whether states are experiencing good or bad economic fortunes.

This is certainly the case for the three fiscal years covered by this survey. Fiscal 1986 ending balances show states leveling off from the economic recovery with $5.4 billion in reserves, equaling 2.6 percent as compared to expenditures. (See Table 6 for previous year's data.)

However, fiscal 1987 has been a difficult year for states as demonstrated by the twenty-three states that cut budgets, the twenty-eight states that are proposing tax increases, and the large number of states with extremely small ending balances. Fiscal 1987 ending reserves equal a dangerously low $1.6 billion or 0.8 percent of expenditures. In fact, only two states -- California and New Jersey -- hold over one-half of the aggregate balance. Forecasts suggest slight improvements for fiscal 1988, when the ending balance is projected to be $3.4 billion, totaling only 1.5 percent of expected expenditures. California, alone, holds almost one-third of these funds.

Five percent is the ending balance benchmark used by Wall Street bond analysts to determine the fiscal condition of a state. This 5 percent reserve acts as a cushion against unexpected expenditure and revenue fluctuations. Clearly, states will not meet this fiscal target.

Table 6 provides the historical background for aggregate state year-end balances since fiscal 1978. The high point in ending balances came in fiscal 1980 when balances equaled 9 percent of expenditures. The low point occurred in fiscal 1983 when balances dipped to only 1.3 percent of spending. If the fiscal 1987 ending balance figure is not altered over the next few months, this year will be the lowest ending balance on record since this survey began compiling data in 1977. See Graph 2.

Fiscal 1987 figures, however, may be an anomaly. Two states -- Alaska and Texas -- distort the picture. Both have enormous pending deficits which may take longer than the next few months to resolve. Alaska is projecting an $875 million deficit, while Texas expects a $1 billion deficit. Without these two figures, the aggregate balance would be $3.5 billion or 1.6 percent of expenditures. Nebraska and South Carolina, the other two states projecting deficits for fiscal 1987, have relatively small deficits that may be legally

Table 6
SIZE OF GENERAL FUND YEAR-END BALANCES, FISCAL 1978 TO 1988*

Fiscal Year	*Year-End Balances ($ in Billions)*	*Balance as a Percent of Expenditures*
1988 est.**	$3.4	1.5%
1987 est.	1.6	0.8
1986	5.4	2.6
1985	8.0	4.3
1984	5.6	3.3
1983	2.0	1.3
1982	4.5	3.0
1981	6.5	4.4
1980	11.8	9.0
1979	11.2	8.7
1978	8.9	8.6

* Does not include balances from budget stabilization funds.
** Excludes figures for Alabama and Louisiana.

Table 7
GENERAL FUND YEAR-END BALANCES AS A PERCENTAGE OF EXPENDITURES

	Fiscal 1986 (Actual)	*Fiscal 1987 (Budgeted)*	*Fiscal 1988 (Proposed)*	*Fiscal 1989 (Proposed)*
1% or Less	16	27	27	8
1%-3%	11	9	8	3
3%-5%	6	5	4	3
Over 5%	17	9	9	4
Total States	50	50	48*	18**
Average Percentage	2.6%	0.8%	1.5%	1.5%

* Excludes Alabama and Louisiana.
** Figures represent states with biennial budgets.

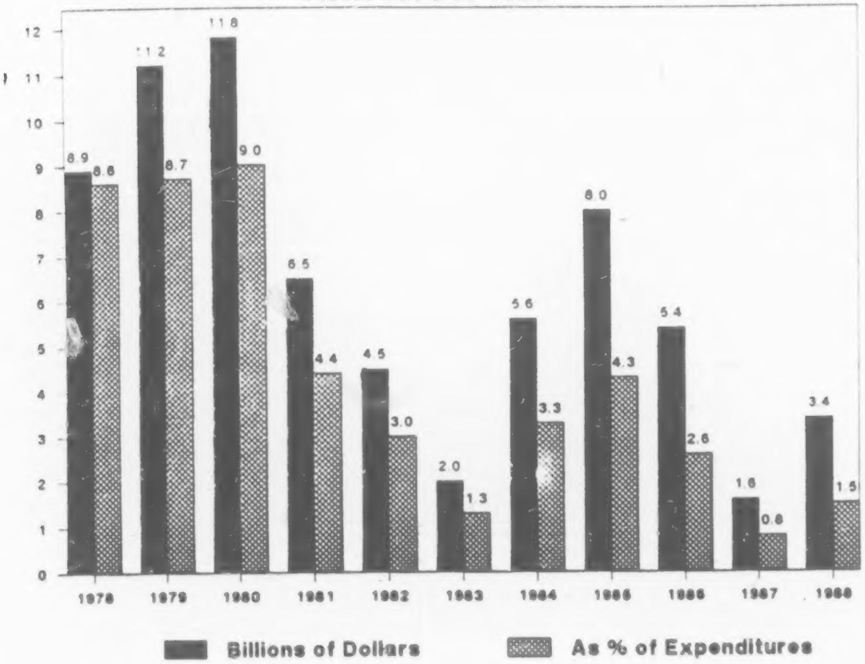
covered by their budget stabilization fund. However, Louisiana's fiscal 1986 deficit of $202 million will be eliminated over a four-year timeframe and it is not counted against the current fiscal 1987 budget. Most significantly, twenty-seven states are reporting ending balances that are one percent or less of expenditures. Only nine states report balances over the recommended' 5 percent. However, either way it is viewed, ending balances are precariously thin and will offer states virtually no protection from deteriorating economic conditions.

As seen from Table 7, fiscal 1988 closely mirrors the statistics of fiscal 1987. Unfortunately, there is no immediate national forecast that offers a significantly improving picture for the states. States are managing multi-billion dollar operations with virtually no safety net to buffer them from adverse conditions.

Budget Stabilization Funds. In recent years, thirty-two states have adopted budget stabilization or "rainy day" funds to help buffer state finances from the sharp fiscal disruptions routinely caused by the business cycle. Rather than cut budgets and raise taxes during the middle of a fiscal year, states can theoretically use these special reserves during a economic emergency. However, for this to work, states must accumulate sufficient funds during good economic times.

As with state ending balances, budget stabilization funds are small. The latest projections show:

- Fiscal 1986 budget stabilization funds equal $1.8 billion, 0.9 percent of expenditures.
- Fiscal 1987 figures show stabilization funds of $2.0 billion or 0.9 percent of expenditures. However, if Alaska spends its reserve fund as proposed, the figures would then drop to $1.6 billion or 0.7 percent of expenditures.



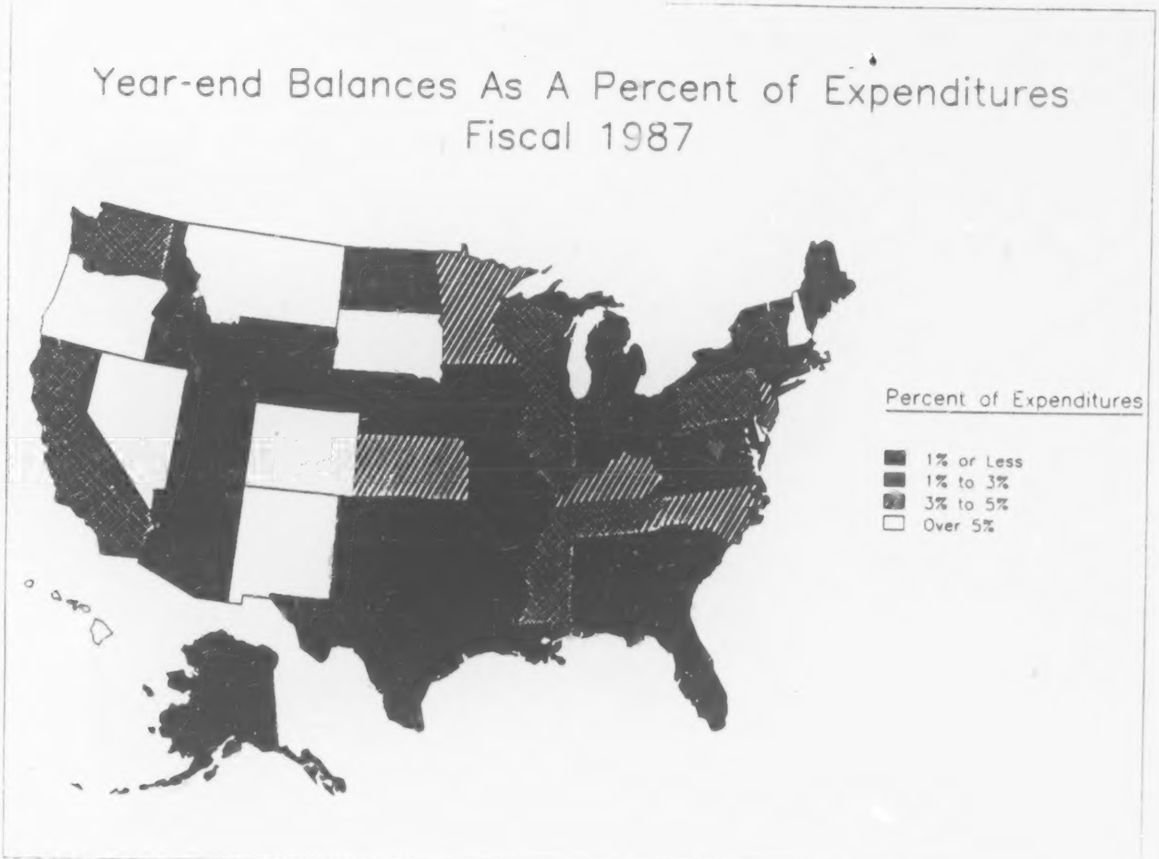
Size of General Fund Year-End Balances, Fiscal 1978 To 1988

- Fiscal 1988 figures show funds increasing marginally with $2.2 billion recommended, which equals 1.0 percent of expenditures.

The most dramatic change occuring in an individual state is in Alaska, which is considering spending the entire fund balance of $436 million in fiscal 1987. Florida has proposed increasing its fund from $82 million in fiscal 1987 to $523 million in fiscal 1988, with a rise to $880 the following year.

Most other state budget stabilization funds remain fairly constant in size. Unfortunately, aside from Alaska, only four states have state reserves of 5 percent or more in fiscal 1987. These states are Connecticut, Michigan, New Hampshire and Wyoming. With amounts lower than this, it would be difficult for states to mitigate recessionary periods. Clearly, small funds can help relieve a less serious fiscal condition, but states will still be unprepared for an extended economic downtown.

Budget stabilization funds should not be combined with ending balances because they serve different purposes. The ending balance provides a hedge against normal revenue and expenditure forecasting errors. A budget stabilization fund is usually designed to alleviate revenue shortfalls caused by economic downturns. Nevertheless, both should be viewed as resources available to a state.



Year-end Balances As A Percent of Expenditures
Fiscal 1987

IV. REGIONAL DIFFERENCES IN FISCAL OUTLOOK

The heartland of the United States is still struggling with dismal economic conditions. States whose economies rely mainly on agriculture or mineral extraction are facing bleak fiscal prospects. Meanwhile, the New England-Mideast corridor continues to bask in flourishing fiscal fortunes.

Consider this: the unweighted average unemployment rate for states that depend heavily on oil severance taxes is 9.5 percent, while the average unemployment rate in New England is an enviable 3.7 percent.

Although this story has been reported in past fiscal surveys, there is no immediate sign that the situation will change in the near future. One possible scenario could see the thriving Northeastern states experiencing slower economic growth rates in the next year or two, while energy states may reap the benefits from higher oil prices as a result of a more unified OPEC. Oil prices have already increased markedly from a low $10 per barrel last April to about $17 per barrel. Experts feel this price may hold if OPEC continues efforts to maintain their cartel.

The roller coaster decline and rise of oil prices strongly affects the nation's inflation rate, which in turn, affects the level of state spending. The dramatic decline in the price of oil greatly contributed to the small 1.1 percent rise in the 1986 consumer price index -- the smallest increase in two decades. Increases in energy prices are beginning to be reflected in changes in economic indicators. The price of home fuel oil had its largest increase in January since the Arab oil embargo. The rise in energy prices helped contribute to the large increase posted in the January consumer price index. If the increase were to continue at that rate, the CPI would increase by 8.3 percent in 1987. Clearly, this change in fortunes may have a dampening effect on Eastern states, while boosting the economies of Western states.

The Southwest, Rocky Mountains, and Southeast are tied for the highest regional unemployment rate which is 8.2 percent unweighted average. States in the Southwestern region also posted the smallest growth in personal income from third quarter in 1985 to third quarter in 1986. All four of these states -- Arizona, New Mexico, Oklahoma, and Texas -- cut their fiscal 1987 budgets and three of those states are considering tax increases this year. Small budget increases are also proposed for next year. Texas is facing a projected deficit for this year of over $1 billion. Table 8 illustrates how dependent some Western states are on the price of oil.

Table 8

DEGREE OF RELIANCE OF ENERGY STATES ON THE PRICE OF OIL

State	*State Revenue Loss for Every $1 Drop in Oil Price ($ in millions)*	*Average FY88 Oil Price Forecast (As of 1/87)*	*Decline of Severance Tax Collections From 3Q 1985 to 3Q 1986**	*Severance Taxes as a Percent of Total State Taxes** *1982*	*Severance Taxes as a Percent of Total State Taxes** *1986 (3Q)*
Alaska	$150	$13-15 bbl.	-18%	62%	76%
Louisiana	30	17.25 bbl.	-18	31	16
Mississippi	—	15.50-17.30	-31	8	3
Montana	3	14.80 bbl.	-17	28	20
New Mexico	7	15.00 bbl.	-14	31	22
North Dakota	4.4	15.09 bbl.	-27	35	21
Oklahoma	7	16.50 bbl.	-28	27	17
Texas	70	15.37 bbl.	-23	26	14
Wyoming	4	11.00 bbl.	-20	51	45

* Includes all severance tax collections, such as from oil, natural gas, and coal.
MS: Will lose $21 million in fiscal 87 as a result of lower oil and natural gas prices.
MT: The forecast for fiscal 1987 is $16.48 per barrel.
ND: The forecast for fiscal 1987 is $16.46 per barrel
TX: The forecast for fiscal 1987 is $16.17 per barrel.
WY: The forecast for fiscal 1987 is $12.00 per barrel.

Source: Bureau of the Census.

The Rocky Mountain region is facing a similar scenario. Personal income growth, by region, is the second lowest in the country. December 1986 unemployment rates are 9 percent in Wyoming, 9.1 percent in Idaho, and 8.4 percent in Montana. Four of the five states in this region cut their fiscal 1987 budgets, and four states are planning on increasing taxes.

Several states in the Southeastern region have the weakest economies in the country, while other states in this region have some of the strongest. Georgia, South Carolina, Tennessee, and Virginia recorded personal income growth of over 7 percent in the most recent annual figures available. The national average was 5.3 percent. Louisiana and West Virginia had extremely low personal income figures with corresponding December unemployment rates of 13.7 percent and 12.1 percent, respectively. Eight of the twelve states in this region are reporting general fund ending balances of 1 percent or less for fiscal 1987. Generally, expenditure increases for next year are small. The dismal economic performance in parts of the Southeastern region is primarily attributable to a mix of poorly producing sectors -- energy and agriculture.

The Plains states are still experiencing severe problems attributed to the farm crisis. According to the U.S. Department of Agriculture, the number of farms decreased by over 60,000 from 1985 to 1986, hurting primarily farms with annual income between $40,000 and $100,000. Land values in the forty-eight contiguous states have plummeted, decreasing by 12 percent during the same time period. Although unemployment rates are lower than the national average, this is to be expected in farm states. Farmers experiencing difficult financial times continue working their farms. Iowa, Minnesota, Missouri, North Dakota, and South Dakota are all seriously considering a tax increase. Budget growth continues to be low, with four states reporting a real decrease in expenditures. Probably the hardest hit state in this region is North Dakota, which is proposing a nominal decrease for next year of 1.8 percent, while legislators are considering an increase in the income tax, sales tax, cigarette tax, and gasoline tax.

The Great Lakes states are beginning to experience slower economic growth. Illinois and Indiana are calling for tax increases to help cover expenditures for the next fiscal year. The average real budget increase for this region is only 0.4 percent.

The good economic news is in New England and the Mid-Atlantic states. Tax decreases are being proposed in New Hampshire and New York, and the proposed budget increases are generally higher than the national average. No state in these two regions cut their budget in fiscal 1987. New England reported personal income growth of 7.2 percent for the most recent annual figures available -- the highest in the country. State employees will all be given a modest pay increase, in contrast to many Western states that will provide for no cost of living increase. The lowest unemployment rate in the country is found in New Hampshire with an astounding December rate of 2.5 percent.

The Far Western regional statistics are mostly dominated by the California economy. Growth in that state is still moderate, however, and state officials are concerned about sluggish state revenue growth. The governor has proposed a meager nominal fiscal 1988 budget increase of only 1.2 percent -- one of the smallest in the country. However, no tax increases are proposed by the governor. Alaska, on the other hand, is facing a disastrous fiscal situation with an $875 million deficit pending in fiscal 1987, representing 37 percent of total expenditures. Over the last seven years, the general fund fell from $5.0 billion to $1.9 billion in fiscal 1988. Alaska's economic plight can be directly atrributed to the problems experienced in the oil industry. In 1979, the Alaskan personal income tax was eliminated. Currently, there is a proposal to reinstate a tax and to limit the annual dividend all Alaskans receive from their Permanent Fund.

V. FEDERAL TAX REFORM: THE IMPACT ON STATES

The changes in the federal tax code, the most sweeping tax reform measures ever enacted, have important implications for state tax structures that rely on the federal code for their own state tax computations. Of the forty states that have a broad-based personal income tax, most conform to some degree to federal income tax law. These states generally accept federal definitions of income and incorporate many of the federal deductions, exemptions, and exclusions into their own tax codes. When the federal government eliminated or curtailed many deductions, and other tax expenditures, it greatly broadened the definition of taxable income -- effectively broadening the definition for the states as well. If states continue to rely on the current federal definition of income and not make any further adjustments, some states would realize a revenue gain. This revenue hike has been called a "windfall" for the states. Most states are, however, taking action to adjust their personal income tax systems. In effect, they will avert this tax increase and the so-called "windfall" will never materialize in most cases.

Survey Results. According to NASBO's survey of executive budget and revenue officers conducted in February 1987, there are four major findings which reflect how states will be affected and how they will respond to changes in their state tax code. The findings include:

- The average state revenue windfall comprises only 1.5 percent of total state general revenue.
- Under current gubernatorial proposals, the states will return 80 percent of the revenue windfall to taxpayers.
- As a result of returning windfall revenues, twenty states will undertake state income tax reform by increasing personal exemptions and standard deductions, reducing the number of tax brackets, and/or reducing the tax rates.
- These state tax reforms will make state income taxes more progressive by lowering or eliminating the tax burden for many low-income people. In addition, in most cases, tax relief is granted to all income levels.

How States Are Responding to Changes in Federal Tax Law. If states completely conform to new federal tax law and make no other changes, the windfall in personal income taxes would amount to $5.6 billion for fiscal 1988. This assumes that the

Table 9
STATE RESPONSE TO PERSONAL INCOME TAX REVENUE GAIN/LOSS DUE TO FEDERAL TAX REFORM, FISCAL 1988

Return Windfall

Arizona
California
Connecticut
Georgia
Hawaii
Kansas
Maine
Michigan
Minnesota
New York
Ohio
Oregon
Virginia
Wisconsin
District of Columbia

Keep Windfall

Idaho
Illinois
Indiana
Kentucky*
Louisiana
Montana
New Mexico
Oklahoma
Utah

*Keep Portion of Windfall**

Colorado
Delaware
Iowa
Maryland
Missouri
West Virginia

*Negligible Windfall** *(Keep Revenue)*

Alabama
Arkansas
Massachusetts
Mississippi
North Carolina

Lose Revenue

Nebraska
North Dakota
Rhode Island
South Carolina
Vermont

No Effect

Alaska
Florida
Nevada
New Hampshire
New Jersey
Pennsylvania
South Dakota
Tennessee
Texas
Washington
Wyoming

*See notes on next page.

* * * * * * * * * *

Taxpayer Scorecard

Amount of windfall revenue to be returned to taxpayers:	$4,540.3 million
Amount of windfall revenue to be kept by state:	881.1 million
Revenue lost by states:	72.9 million
Amount not yet determined:	260.8 million

Total Fiscal 1988 revenue windfall: $5,609.3 milion

STATES RETURNING 80% OF WINDFALL

Notes to Table 9

Negligible windfall: The amount of revenue expected to be collected is less than 1.5% of total 1986 personal income tax collections, and will be very difficult to measure. These states will retain whatever revenue is generated due to federal tax reform, but it is not a major public policy issue.

CO: The governor has announced that he would like to retain a portion of the windfall revenue, and is currently working with the legislature to determine the appropriate amount.

DE: In fiscal 1989, 83% of the windfall will be returned to the taxpayers.

IA: In fiscal 1988, 45% of the windfall will be returned to the taxpayer by returning $25 million through lower tax rates and $45 million through property tax relief going to local governments.

KS: The governor plans to wait until 1988 or 1989 to assess taxpayer behavior before proposing a rebate plan. He has also appointed a special tax commission to recommend a comprehensive tax overhaul plan.

KY: No action yet proposed for 1987, resulting in state conforming to old federal tax code. Therefore, actual revenue windfall for fiscal 1988 is only $25 million. Other figure of $116.2 million refers to amount state would receive if state tax code completely updated to current federal code. Legislature does not meet this year. Future policy not formulated.

MD: Return 41% or $62.4 million to taxpayers. These figures do not include revenue derived from the local income tax which piggybacks to the state tax and ranges from 20% to 50% of state tax liability.

MO: In fiscal 1989, 54% of the windfall will be returned to the taxpayer through increases in the personal exemption and standard deduction, expansion of the property tax circuitbreaker, creation of family education accounts, support for distressed farmers, and incentives for small business.

NC: If state revenues increase more than $25 million as a result of federal tax reform, the excess will be returned to the taxpayers.

VA: Place $28 million into "Tax Reform Reserve Fund" to guard against erroneous revenue estimates and additional federal changes. It will be returned by the 1988 General Assembly.

WV: In fiscal 1988, 57% of the windfall will be returned to the taxpayers.

seventeen states that tie into the federal tax code as of a specific date would update their tax code to current federal law. For example, Oregon conforms to the federal code as of December 31, 1984. This analysis assumes they would update to current law. Of this total windfall, governors intend to return $4.5 billion or approximately 80 percent back to the taxpayers. Complete state figures for fiscal 1989 are not available. However, these numbers will generally be slightly higher, since most federal tax changes will have been phased in by that time. To summarize the findings (refer to Table 9 for more information):

- As of February, governors in fourteen of the more heavily populated states and the District of Columbia have proposed to return the windfall or have pledged to keep their tax systems revenue neutral.
- Nine states plan to retain the revenue increase to help balance the budget or maintain state programs. Most of these states are currently facing severe fiscal stress due to poor economic conditions in the oil, mining, and farming sectors.
- Governors in six states have announced plans to return a portion of the revenue to taxpayers and to retain the remaining portion for state priority programs.
- **Five additional states plan to retain the windfall revenue; however, the increased personal income tax collections will be negligible, i.e., less than 1.5 percent of current personal income tax collections.**

- As a result of federal tax reform, five states will lose revenue if no action is taken because they conform to federal taxable income or tax liability.

- The remaining eleven states either have no personal income tax or are not affected by federal tax reform.

Problems with Windfall Revenue Estimates. Despite expenditure demands on state government, governors are proposing to return most of the tax windfall to taxpayers. However, with the passage of major federal tax reform, the job of estimating state tax revenue for normal budgeting purposes will be extremely difficult. No economist can accurately predict how taxpayers will now behave under new tax rules in which the tax code is more neutral with regard to spending and investment. This uncertainty of how taxpayers will respond will make it harder for state revenue estimators to formulate future revenue forecasts.

The figures contained in Table 10 are state-generated computations of the revenue impact. These figures isolate the windfall effect by assuming that states conform to the new federal code, but do not take any counterbalancing actions to reduce revenue gains. Therefore, these computations provide state policymakers with a guideline to measure the revenue effect which is necessary when developing policy options.

Some governors are creating mechanisms to minimize disruptions of state government operations because of unstable revenue estimates. For example, the Governor of Virginia created a $18 million Tax Reform Reserve Fund that will guard state collections against erroneous revenue estimates and possible further federal tax changes. The revenues will be returned to the taxpayers in next year's legislative session. The Governor of New York has proposed to set up a special commission to monitor incoming tax collections and if original tax estimates for the windfall were too conservative, adjustments will be made in future years. The Governor of Ohio has established a similar model that determines whether windfall revenues are more than 15 percent under projections and may be adjusted through a tax increase.

Placing the Windfall Revenue into Perspective. State personal income tax collections equal only 20 percent of income tax collected by the federal government. Therefore, even if all the states decided to keep the windfall, taxpayers on average would still realize an overall income tax decrease because federal individual income tax liability will decrease about $20 billion, while state taxes would have risen by about $6 billion. Clearly, this will not occur since most states are returning any revenue gain back to the taxpayers, but the example helps place state income tax collections in perspective.

Current discussion of the impact of the state windfall has been overstated in many instances. On average, the potential revenue increase represents only a 8.3 percent increase in total state personal income tax collections. Table 11 shows that only four states will realize a 20 percent or more personal income tax revenue gain, and one of those states -- Connecticut -- does not have a broad-based income tax and taxes only capital gains, interest, and dividend income. Another state -- New Mexico -- until recently, collected very little from its income tax. Six states will gain less than 5 percent in personal income taxes, twelve states will gain 5 to 10 percent, nine states will gain 10 percent to 15 percent, and three states will gain between 15 percent and 20 percent. Also, five states lose personal income tax revenue.

If the windfall revenue is viewed as a percent of total state general revenue, the increase is only 1.5 percent for fiscal 1988. Table 12 shows that only six states will realize an increase of more than 3 percent when compared to the total revenue picture. State personal income tax collections comprise only about 17 percent of total state general revenue, including federal funds, other taxes, and fees.

Table 10
STATE REVENUE EXPECTED TO BE COLLECTED DUE TO FEDERAL TAX REFORM
($ in millions)
[assumes state updates to the federal code, but makes no other adjustments]

	Change In Personal Income Tax		*Change In Corporate Income Tax*		*FY88 Windfall As a % of FY86 Personal Income Tax*	*FY89 Windfall As a % of FY86 Personal Income Tax*	*Windfall As a % of Total 1985 Gen. Revenue*
State and Region	*FY88*	*FY89*	*FY88*	*FY89*			
New England							
Connecticut	$150.0	n.a.	n.a.	n.a.	48.1%	n.a.	2.6%
Maine	20.0	n.a.	$5-6	n.a.	5.9	n.a.	1.1
Massachusetts	50.0	50.0	30.0	30.0	1.4	1.4%	0.5
New Hampshire	–No Tax–						
Rhode Island	TY88 + -24.3	n.a.	n.a.	n.a.	-8.4	n.a.	-1.3
Vermont	-14.9	-16.0	+ or - 1	+ or -1	-9.3	-9.9	-1.5
Mideast							
Delaware	24.4	33.4	6.5	5.9	6.2	8.5	1.6
Dist. of Columbia	46.6	54.2	8.4	9.3	10.5	12.2	1.6
Maryland	152.8	173.0	13.9	13.0	7.9	9.0	2.2
New Jersey	0.0	0.0	10.0	100.0	0.0	0.0	0.0
New York	950.0	1600.0	50.0	100.0	8.2	13.9	2.5
Pennsylvania	0.0	0.0	n.a.	n.a.	0.0	0.0	0.0
Great Lakes							
Illinois	100.0	n.a.	30.0	n.a.	3.8	n.a.	0.7
Indiana	50.0	50.0	n.a.	n.a.	3.8	3.8	0.7
Michigan	170.0	170.0	0.0	0.0	5.1	5.1	1.1
Ohio	262.0	341.0	41.0	70.0	9.4	12.3	1.8
Wisconsin	164.3	n.a.	14.0	n.a.	7.4	n.a.	2.0
Plains							
Iowa	155.0	n.a.	15.0	n.a.	17.9	n.a.	3.9
Kansas	143.0	135.0	0.0	0.0	24.6	23.2	4.6
Minnesota	304.0	356.0	24.0	38.0	15.6	18.3	3.7
Missouri	157.0	191.0	16.0	22.0	14.1	17.1	2.7
Nebraska	-21 to -24	-34.0	7.0	n.a.	-6.4	-9.7	-1.1
North Dakota	-2.8	-6.6	0.5	1.5	-3.8	-9.0	-0.2
South Dakota	- - - - - - - - - -No Tax- - - - - - - - - -						
Southeast							
Alabama	10.0	n.a.	*	n.a.	1.4	n.a.	0.2
Arkansas	0 to +1	n.a.	0.0	0.0	0.0	0.0	0.0
Florida	- - - - -No Tax- - - - -		73.6	75.7			
Georgia	200 to 250*	n.a.	*	n.a.	11.6	n.a.	3.0
Kentucky	116.2	134.7	7 to 13	7 to 13	14.2	16.4	2.2
Louisiana	30.0	65.0	-5.0	-5.0	6.3	13.5	0.4
Mississippi	marginal	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
North Carolina	15.0	n.a.	10.0	n.a.	0.7	n.a.	0.2
South Carolina	-8.4	-0.4	0 to +10	0 to + 10	-0.9	0.0	-0.2
Tennessee	- - - - -No Tax- - - - -		n.a.	n.a.			
Virginia	147.0	198.0	26.0	22.0	6.8	9.1	1.9
West Virginia	47.0	52.0	n.a.	n.a.	11.1	12.3	1.6
Southwest							
Arizona	110.0	n.a.	11.0	n.a.	15.7*	n.a.	2.6*
New Mexico	54.0	n.a.	5.0	n.a.	50.5	n.a.	1.7
Oklahoma	54.0	n.a.	n.a.	n.a.	7.8	n.a.	1.1
Texas	- - - - - - - - - -No Tax- - - - - - - - - -						
Rocky Mountain							
Colorado	260.8	n.a.	34.1	n.a.	27.2	n.a.	6.3
Idaho	13.3	10.0	8.2	16.7	5.2	3.9	1.0
Montana	20.3	39.8	4.7	5.6	11.8	23.1	1.5
Utah	50.0	65.0	n.a.	n.a.	9.8	12.8	1.9
Wyoming	- - - - - - - - - -No Tax- - - - - - - - - -						
Far West							
California	1407.0	1486.0	485.0	314.0	12.4	13.1	3.1
Nevada							
Oregon	168.0	179.0	n.a.	n.a.	14.1	15.0	4.1
Washington	- - - - - - - - - -No Tax- - - - - - - - - -						
Alaska	–No Tax–		n.a.	n.a.			
Hawaii	55.0	62.0	2.0	2.0	11.8%	13.2	2.4
US TOTAL	**5609.0**		**941.4**		**8.3**		**1.5%**

* Personal income tax and corporate income tax revenues are combined.

NM: 1986 personal income tax collection figures are not available from the Bureau of Census. Relied on states information.

NOTE: These figures assume that all affected states will update completely to the federal Tax Reform Act of 1986. The majority of states will make compensating adjustments, so that the revenue windfall will never materialize.

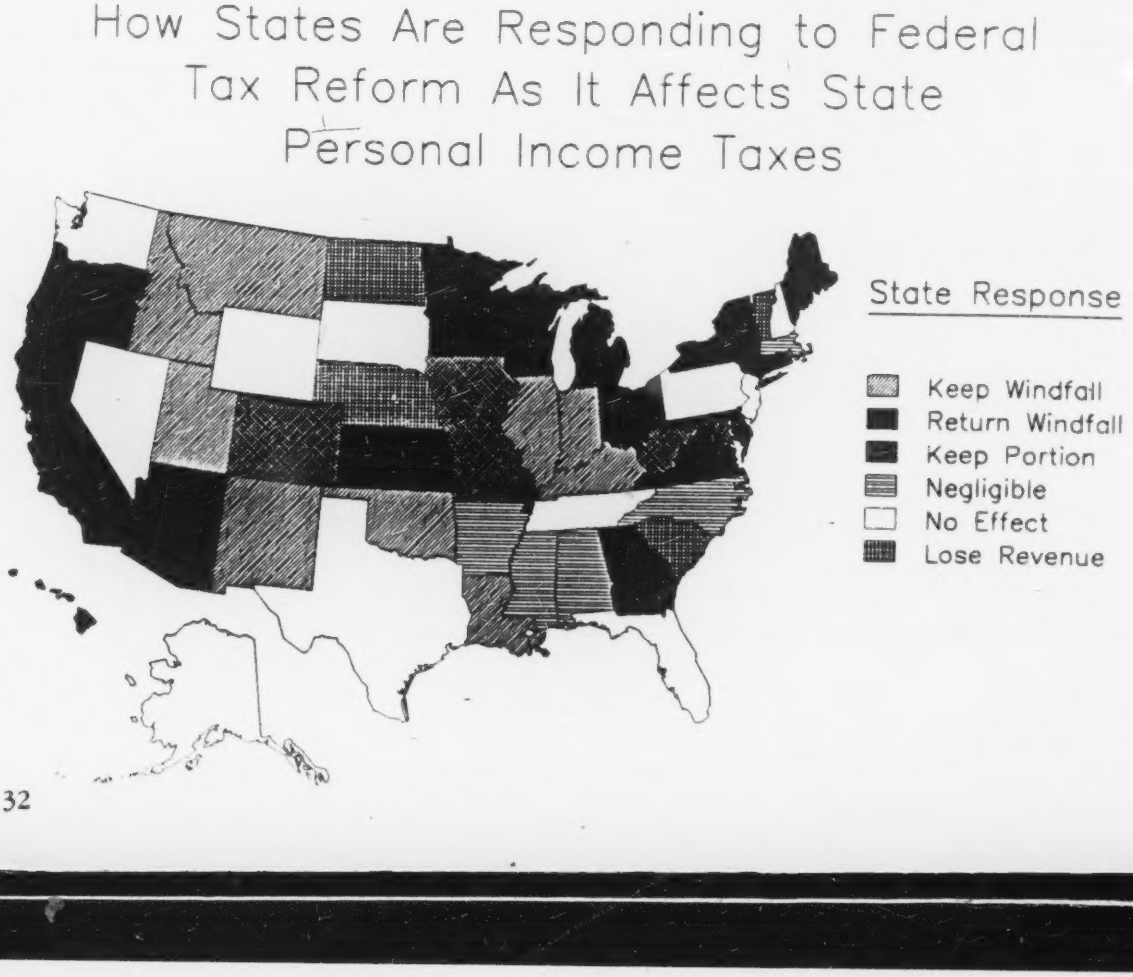
Table 11
SIZE OF FISCAL 1988 WINDFALL AS A PERCENT OF FISCAL 1986 PERSONAL INCOME TAXES

LOSE REVENUE:	5 states
GAIN REVENUE:	
0% to 5%	6 states
5% to 10%	12 states
10% to 15%	9 states
15% to 20%	3 states
Over 20%	4 states
NOT AFFECTED:	12 states

*Includes D.C.

State Income Tax Reform Measures. Following the federal government's lead in broadening the tax base and reducing the rates, at least twenty states are overhauling their own income tax system. Most are guided by the principles that produced federal reform. Even some states that are not returning the revenue to taxpayers due to fiscal stress are considering reform of their personal income tax structure.

One method to bring tax relief to all taxpayers is to raise the personal exemption and standard deduction amounts. Inflation has greatly eroded the value of the state personal exemption and standard deduction, especially during the high inflation years of the late 1970s and early 1980s. Few states adjusted these deductions, so taxpayers paid higher taxes because of the decreased value of exemptions and "bracket-creep," whereby inflation moved taxpayers into higher tax brackets. Now many states are re-evaluating their tax structures and making adjustments for the inequities caused by inflation.


How States Are Responding to Federal Tax Reform As It Affects State Personal Income Taxes
State Response
Keep Windfall
Return Windfall
Keep Portion
Negligible
No Effect
Lose Revenue

As Table 13 shows, thirteen states and the District of Columbia are proposing to raise the personal exemption, and seventeen states and the District of Columbia are increasing the standard deduction. Not only do all taxpayers benefit from this action, but many low-income taxpayers will now be removed from the tax rolls. This was also an objective of federal reform. For example, changes in Delaware will remove 30,000 low-income taxpayers from the tax rolls, and in Minnesota, 125,000 residents will no longer have a state tax liability. Many states are making an effort to adopt the federal amounts for the personal exemption and standard deduction so that low income people will not have to file a state tax return if they do not file a federal return. These actions contribute to a more progressive tax system.

Many states are following the lead of the federal government when it collapsed tax brackets from fifteen to two. Presently, governors in seven states and the District of Columbia are proposing to adopt a modified flat rate bracket system with only two or three tax rates. Some states have a system with ten to fifteen separate brackets and rates, and there is now pressure to reduce the number. For example, Governor Branstad of Iowa is recommending collapsing thirteen brackets into two with rates of 2 percent and 6 percent. Governor Schwinden of Montana is proposing to decrease ten brackets into three, with tax rates of 4 percent, 6 percent, and 8 percent. Concurrently, with this move to a modified flat rate system, the top rate is decreasing in many states.

Overall, ten states and the District of Columbia are seeking lower nominal tax rates. Some are accomplishing this through a change in the number of brackets, while other states are planning on a general rate reduction. Examples here include Ohio which already passed a 7 percent across-the-board rate reduction for 1987; Wisconsin, which is proposing a 3.5 percent across-the-board tax cut; and Michigan which will cut the tax rate from 4.6 percent to 4.4 percent.

Governors are also making some base changes. Ten states intend to maintain, and in some cases expand, tax advantages for elderly and blind taxpayers. The federal government, in this case, cut back on the tax advantages for this group of taxpayers.

With the demise at the federal level of the state and local sales tax deduction, it is interesting to note that of the fifteen states that still allow for full or partial deduction of federal taxes paid on state tax forms, five states are proposing to eliminate this deduction. States are finding that repeal of this provision greatly adds to the progressivity of their tax system.

This year, states are writing a new chapter in state tax policy and their actions will be a turning point in the history of state income tax law. Prodded by federal tax reform, states will be re-evaluating how state income taxes conform to federal taxes, whether to increase state tax levels, and how to distribute the tax burden among income levels.

Governors are proposing to return eighty percent of the state tax revenue resulting from federal changes to the taxpayers, even though this windfall represents only 1.5 percent of all state general revenue. Many states are taking this opportunity to restructure their income tax codes, primarily by increasing the personal exemption and standard deduction, collapsing the number of tax brackets, and lowering tax rates.

Table 12
SIZE OF WINDFALL AS A PERCENT OF TOTAL STATE FISCAL 1985 GENERAL REVENUE

REVENUE LOSS OF 2% OR LESS: Nebraska, North Dakota, Rhode Island, South Carolina, and Vermont.

REVENUE GAIN:

0.1% to 2.0%: Alabama, Delaware, District of Columbia, Idaho, Illinois, Indiana, Louisiana, Maine, Massachusetts, Michigan, Mississippi, Montana, New Mexico, North Carolina, Ohio, Oklahoma, Utah, Virginia, West Virginia, and Wisconsin.

2.1% to 3.0%: Arizona, Connecticut, Georgia, Hawaii, Kentucky, Maryland, Missouri, and New York.

Over 3.0%: California, Colorado, Iowa, Kansas, Minnesota, and Oregon.

NOT AFFECTED: Alaska, Arkansas, Florida, Nevada, New Hampshire, New Jersey, Pennsylvania, South Dakota, Tennessee, Texas, Washington, and Wyoming.

Table 13
STATES PROPOSING MAJOR TAX REFORM, 1987

Raise Personal Exemption/Credit

District of Columbia
Georgia
Idaho*
Minnesota
Missouri
Montana
Nebraska
North Dakota*
Oregon
Rhode Island*
South Carolina*
Utah
Vermont*
Virginia

Raise Standard Deduction

Delaware
District of Columbia
Georgia
Hawaii
Maryland
Minnesota
Missouri*
Montana
Nebraska
North Dakota*
Rhode Island
South Carolina*
Utah
Vermont*
Virginia

Collapse Brackets

Delaware
District of Columbia
Hawaii
Iowa
Minnesota
Montana
New York
Utah

Reduce Tax Rates

Delaware
District of Columbia
Hawaii
Iowa
Michigan
Minnesota
Montana
New York
Ohio
Oregon
Wisconsin

*These states automatically incorporate the federal personal exemption or standard deduction or both into their tax code. They have the option of decoupling from the federal code, thereby preventing a major revenue loss, but have chosen to remain tied to the federal code.

APPENDIX

The Fiscal Survey of the States is published semi-annually by the National Association of State Budget Officers (NASBO) and the National Governors' Association (NGA). The series was started in 1977. The survey presents aggregate and individual data on the states' general fund receipts, expenditures, and balances. While not the totality of state spending, these funds are used to finance most broad-based state services, and are the most important elements in determining the fiscal health of the states. A companion survey will be released in Summer 1987 that will include all state spending.

The field survey on which this report was based was conducted by the National Association of State Budget Officers in January 1987. The questionnaires were completed by governors' state budget officers.

Fiscal 1987 will close for forty-six states on June 30, 1987. New York's fiscal year ends on March 31, 1987. Texas' fiscal year will close August 31, 1987, and Michigan's and Alabama's on September 30, 1987. Thus, fiscal 1987 numbers are still estimated amounts. Fiscal 1988 and fiscal 1989 budget data reflects the governor's recommend budget.

The structure of the survey presumes budgeting identities as follows:

1. Beginning Balance + Revenues + Adjustments = Resources

2. Resources - Expenditures - or + Transfers = Ending Balance

3. Ending Balance, Year 1 = Beginning Balance, Year 2

Adjustments to revenues may include such things as reversions, tax refunds, settlement from court cases, surplus property sales, changes in tax collections, and changes in fund dedication. Transfers may be positive or negative, depending on whether monies are flowing in or out of the general fund.

Exceptions to this identity result from rounding numbers and from the practice in a few states of making adjustments between the ending balance in one year and the beginning balance in the next. These exceptions have only a minor impact on the overall results of the survey.

Reporting concepts within this structure vary from state to state, as do definitions of what activities are included in the general fund, although all federal funds and trust funds are usually excluded. If federal funds are excluded, general fund spending comprises about 80 percent of total state spending. Thus, the results of the fiscal survey are not strictly appropriate for comparisons among states. They are more appropriate for comparisons over time within the same state.

Table A-1
FISCAL 1986 STATE GENERAL FUND
($ in millions)
ACTUAL FIGURES

State	Beginning Balance	Revenue	Adjustments	Resources	Expenditures	Transfers	Ending Balance	Budget Stab. Fund
Alabama	308	2,475	(5)	2,778	2,770		9	0
Alaska	(214)	2,807		2,593	2,789		(196)	436
Arizona	14	2,275	24	2,313	2,329		(16)	
Arkansas	0	1,587		1,587	1,587		0	0
California	1,455	28,090		29,545	28,841	(18)	686	**
Colorado	16	1,956	25	1,997	1,867	(127)	4	**
Connecticut	0	4,318		4,318	4,012	(306)	0	198
Delaware	180	889		1,070	929		141	**
Florida	112	6,916		7,028	6,842		186	131
Georgia	254	5,020		5,274	5,029	(151)	94	151
Hawaii	130	1,605	4	1,739	1,602		137	
Idaho	0	562	20	582	581		1	0
Illinois	479	9,786	797	11,062	10,014	(760)	288	
Indiana	55	3,280	(4)	3,330	3,123	(168)	39	145
Iowa	0	2,335	(183)	2,152	2,144	(8)	0	8
Kansas	120	1,642	1	1,763	1,743		20	
Kentucky	118	2,736	9	2,863	2,655		209	
Louisiana	100	4,011		4,111	4,313		(202)	
Maine	20	949	27	996	951	(35)	10	10
Maryland	49	4,164		4,213	4,160		53	0
Massachusetts	92	6,565	58	6,715	6,183	(199)	333	
Michigan	117	6,166		6,283	5,970	(161)	153	358
Minnesota	539	4,785	37	5,360	4,855	(135)	370	**
Mississippi	54	1,515		1,569	1,517		52	38
Missouri	265	2,902		3,167	3,057		110	0
Montana	28	359		377	367	6	16	
Nebraska	13	835		847	830		18	22
Nevada	65	482	14	561	474	(2)	85	
New Hampshire	22	467	13	502	469		32	
New Jersey	812	8,411	28	9,251	8,730		521	
New Mexico	112	1,372	64	1,548	1,414	(9)	124	**
New York	102	22,861		22,963	21,751	(1,059)	153	**
North Carolina	380	4,911		5,291	4,972		319	
North Dakota	161	479		640	525	(5)	109	
Ohio	298	9,648	86	10,032	9,567	(7)	458	141
Oklahoma	108	1,875	65	2,048	2,040	(8)	0	
Oregon	198	1,596		1,794	1,604		191	
Pennsylvania	311	9,227	17	9,555	9,292	(50)	213	25
Rhode Island	61	1,044		1,105	1,048	(5)	52	10
South Carolina	61	2,509		2,570	2,592	37	15	52
South Dakota	40	337		377	346		31	
Tennessee	205	2,745		2,950	2,598	(208)	144	**
Texas	233	10,793		11,026	8,287	(2,970)	(231)	
Utah	19	1,250	3	1,272	1,277	7	2	
Vermont	(20)	414	4	398	389	(6)	3	
Virginia	47	4,132	48	4,227	4,021		206	0
Washington	0	4,521		4,521	4,520		1	
West Virginia	163	1,546		1,709	1,597		112	
Wisconsin	314	4,851		5,165	4,872	(56)	237	
Wyoming	138	392		530	424		106	105
Total	8,134	206,393	1,152	215,667	203,869	(6,403)	5,398	1,830
Dist. of Col.	(245)	2,288		2,043	2,211	(57)	(225)	

NOTES TO A-1, FISCAL 1986

**Budget Stabilization Fund is included with ending balance.

*Notes: Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes at the end of the Appendix. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

AK: Information obtained from the Legislative Finance Committee and not from the governor's Office of Management and Budget.

DC: Cumulative balances include pre-home rule deficits. Other figures are annual.

LA: The deficit will be eliminated over a four-year period.

MO: Does not reflect Cash Operating Reserve Fund in excess of $143 million.

ND: Fiscal 1986 represents actual cash expenditures as recorded for the first year of the biennium. Since the state operates on a biennial basis, the books are closed in odd years and Fiscal 1986 figures are understated.

OR: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium, and 52 percent for the second year.

VA: Capital outlay appropriations for the biennium are contained in the first year of the budget and are subject to carry forward in the second year.

Table A-2
FISCAL 1987 STATE GENERAL FUND
($ in millions)
ESTIMATED FIGURES

State	Beginning Balance	Revenue	Adjustments	Resources	Expenditures	Transfers	Ending Balance	Budget Stab. Fund
Alabama	9	2,535	(6)	2,538	2,537		1	0
Alaska	(196)	1,334	369	1,506	2,381		(875)	436
Arizona	(16)	2,416		2,401	2,396		5	
Arkansas	0	1,631		1,631	1,631		0	0
California	686	30,555		31,242	30,890	209	561	**
Colorado	4	2,018	141	2,163	1,971	(62)	130	**
Connecticut	0	4,507		4,507	4,343	(164)	0	215
Delaware	141	926		1,067	939		128	**
Florida	186	7,559		7,745	7,785	40	0	82
Georgia	94	5,316		5,410	5,410		0	159
Hawaii	137	1,690	10	1,837	1,725		112	
Idaho	1	561	47	609	609		0	0
Illinois	288	10,178	978	11,452	10,398	(835)	219	
Indiana	39	3,480		3,520	3,272	(231)	16	164
Iowa	0	2,440	(260)	2,181	2,175	(6)	0	14
Kansas	20	1,765		1,785	1,732	(1)	52	
Kentucky	207	2,903	7	3,117	2,955	(25)	137	25
Louisiana	0	3,922	49	3,971	3,963		8	
Maine	10	1,034	3	1,047	1,044	(3)	0	16
Maryland	53	4,491		4,544	4,452	(50)	42	50
Massachusetts	333	6,809	29	7,172	6,829	(304)	39	
Michigan	153	6,158		6,311	6,280		31	344
Minnesota	370	5,157	19	5,546	5,238	(129)	179	**
Mississippi	52	1,491		1,542	1,512		31	39
Missouri	110	3,231		3,341	3,341		0	0
Montana	16	384		400	382	9	27	
Nebraska	18	847		865	875		(10)	23
Nevada	85	514	13	612	569	2	44	
New Hampshire	32	503		. 535	484	(25)	26	25
New Jersey	521	8,976	70	9,566	9,119		448	
New Mexico	124	1,321	114	1,560	1,459	(7)	93	**
New York	153	24,577		24,730	23,402	(1,159)	169	**
North Carolina	319	5,201	8	5,528	5,350		178	
North Dakota	109	448		557	556		1	
Ohio	458	10,140	7	10,605	10,573		32	151
Oklahoma	0	1,663	20	1,683	1,641	(27)	15	
Oregon	191	1,750		1,940	1,737		203	
Pennsylvania	213	9,708	40	9,961	9,649	(50)	262	50
Rhode Island	52	1,122		1,174	1,117	(12)	45	19
South Carolina	15	2,656		2,671	2,671	(6)	(6)	58
South Dakota	31	360		391	364		27	
Tennessee	144	2,890		3,034	2,966	7	75	**
Texas	(231)	10,783		10,552	8,564	(3,018)	(1,030)	
Utah	2	1,254	2	1,258	1,284	26	0	0
Vermont	3	435	4	442	427	(4)	11	
Virginia	206	4,491	70	4,766	4,766		0	32
Washington	1	4,775	58	4,834	4,728		107	
West Virginia	112	1,593		1,705	1,686	(19)	0	
Wisconsin	237	4,919		5,156	5,054		102	
Wyoming	106	328		434	402	32	0	137
Total	5,598	215,745	1,792	223,144	215,633	(5,812)	1,635	2,039
Dist. of Col.	(225)	2,433		2,208	2,302	(111)	(205)	

NOTES TO A-2, FISCAL 1987

**Budget Stabilization Fund is included with ending balance.

*Notes: Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes at the end of the Appendix. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

AK: Information obtained from the Legislative Finance Division and not from the governor's Office of Management and Budget.

DC: Cumulative balances include pre-home rule deficits. Other figures are annual.

LA: The fiscal 1986 deficit of $202 million will be eliminated over a four-year period and is not reflected in fiscal 1987 figures.

MO: Does not reflect Cash Operating Reserve Fund in excess of $143 million.

ND: Fiscal 1987 revenues and expenditures are based on pending legislation.

OR: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium, and 52 percent for the second year.

SC: Rainy Day Fund is used to lower operational deficit.

VA: Capital outlay appropriations for the biennium are contained in the first year of the budget and are subject to carry forward in the second year. Expenditures include amounts transferred to other fund accounts prior to final expenditure and amounts required to be reappropriated.

Table A-3
FISCAL 1988 STATE GENERAL FUND
($ in millions)
GOVERNORS' PROPOSED BUDGET

State	Beginning Balance	Revenue	Adjustments	Resources	Expenditures	Transfers	Ending Balance	Budget Stab. Fund
Alabama			NOT AVAILABLE					
Alaska	(875)	1,325	1,487	1,937	1,885		52	0
Arizona	5	2,398		2,403	2,383		19	
Arkansas	0	1,702		1,702	1,702		0	0
California	561	31,675		32,236	31,264	67	1,040	**
Colorado	108	2,111	295	2,513	2,140	(50)	323	**
Connecticut	0	4,919		4,919	4,919		0	246
Delaware	128	980		1,108	1,001		108	**
Florida	0	8,870		8,870	8,445	(425)	0	523
Georgia	0	5,772		5,772	5,772		0	173
Hawaii	112	1,821	10	1,943	1,830		113	
Idaho	0	580	83	663	663		0	0
Illinois	219	11,472	805	12,496	11,403	(874)	219	
Indiana	16	3,608		3,624	3,378	(235)	11	169
Iowa	14	2,650	(220)	2,444	2,435	(9)	0	9
Kansas	52	1,947	15	2,014	1,860	(25)	129	
Kentucky	137	3,207		3,344	3,293	(50)	1	50
Louisiana			NOT AVAILABLE					
Maine	0	1,128	3	1,131	1,122	(3)	6	8
Maryland	42	4,883		4,925	4,916	(5)	4	55
Massachusetts	39	7,620		7,659	7,368	(290)	0	
Michigan	31	6,464		6,495	6,457		39	367
Minnesota	179	5,417	20	5,616	5,431	(145)	40	**
Mississippi	31	1,517		1,547	1,547		0	40
Missouri	0	3,615	40	3,655	3,655		0	0
Montana	27	388		415	402		13	
Nebraska	(10)	896	2	888	862		26	25
Nevada	44	552	4	600	556		44	
New Hampshire	26	525		551	526	(1)	24	26
New Jersey	448	9,616		10,064	9,869		195	
New Mexico	93	1,428	99	1,620	1,516	1	106	**
New York	169	26,275		26,444	25,194	(1,065)	185	**
North Carolina	178	5,643		5,821	5,641		180	
North Dakota	1	541		542	546		(4)	
Ohio	32	10,693		10,725	10,678		47	151
Oklahoma	15	1,753		1,768	1,681		87	
Oregon	203	1,628		1,831	1,720		112	
Pennsylvania	262	10,089	(36)	10,315	10,243	(70)	2	85
Rhode Island	45	1,180		1,225	1,193	(14)	19	28
South Carolina	0	2,829		2,829	2,804	(25)	0	83
South Dakota	27	346		373	365		8	
Tennessee	75	3,058		3,133	3,032	(26)	75	**
Texas	(1,030)	10,058		9,028	6,282	(2,746)	0	
Utah	0	1,372		1,372	1,372		0	0
Vermont	11	449	4	464	457		7	
Virginia	0	4,875	67	4,942	4,937		5	28
Washington	107	5,184		5,291	5,261		29	
West Virginia	0	1,617		1,617	1,617		0	
Wisconsin	102	5,252		5,354	5,299		55	
Wyoming	0	313		313	304	26	35	111
Total	1,624	222,241	2,678	226,541	217,226	(5,964)	3,354	2,177
Dist. of Col.	(205)	2,614		2,409	2,507	(107)	(205)	

NOTES TO A-3, FISCAL 1988

**Budget Stabilization Fund is included with ending balance.

*Notes: Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes at the end of the Appendix. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

AK: Information obtained from the Legislative Finance Division and not from the governor's Office of Management and Budget.

AL: Fiscal 1988 budget has not yet been released.

DC: Cumulative balances include pre-home rule deficits. Other figures are annual.

IA: $14 million was transferred from the stabilization fund to the general fund and is represented as the beginning balance.

LA: The deficit will be eliminated over a four-year period.

MO: Does not reflect cash operating Reserve Fund in excess of $143 million.

ND: The deficit figure for Fiscal 1988 reported here is a mid-biennial figure. North Dakota is only required to balance the budget for the biennium. Expenditures represent 49 percent of biennial recommendations.

OK: The governor has recommended combining the Human Services Fund with the general fund. To maintain comparability, these figures have been excluded from the figures listed in this table.

OR: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium, and 52 percent for the second year.

UT: General fund figures represents enacted appropriations not governor's recommendation.

VA: Capital outlay appropriations for the biennium are contained in the first year of the budget and are subject to carry forward in the second year. Expenditures include amounts transferred to other fund accounts prior to final expenditure and amounts required to be appropriated. Fiscal 1988 figure is a proposed appropriation that reserves additional revenue to be received from accounting changes made by the Federal Tax Reform Act of 1986.

WA: Beginning balance was not allocated to pension fund as is common state practice.

Table A-4
FISCAL 1989 STATE GENERAL FUND
($ in millions)
GOVERNORS' PROPOSED BUDGET

State	Beginning Balance	Revenue	Adjustments	Resources	Expenditures	Transfers	Ending Balance	Budget Stab. Fund
Alabama								
Alaska								
Arizona								
Arkansas	0	1,781		1,781	1,781		0	0
California								
Colorado								
Connecticut								
Delaware								
Florida	0	9,517		9,517	8,985	(331)	202	880
Georgia								
Hawaii	113	1,899	10	2,022	1,896		126	
Idaho								
Illinois								
Indiana	11	3,817		3,829	3,566	(261)	1	211
Iowa								
Kansas								
Kentucky								
Louisiana								
Maine	6	1,217	3	1,226	1,221	(3)	2	8
Maryland								
Massachusetts								
Michigan								
Minnesota	40	5,795	18	5,853	5,433	(154)	266	**
Mississippi								
Missouri								
Montana	13	410		423	400		23	
Nebraska	26	916		942	876		66	26
Nevada	44	584	4	632	589		43	
New Hampshire	24	536		560	544	(1)	15	27
New Jersey								
New Mexico								
New York								
North Carolina	180	6,104		6,284	6,284		0	
North Dakota	(4)	583		579	568		11	
Ohio	47	11,314		11,361	11,298		63	151
Oklahoma								
Oregon	112	1,812		1,924	1,863		61	
Pennsylvania	2	10,741	(40)	10,703	10,653	(50)	0	120
Rhode Island								
South Carolina								
South Dakota								
Tennessee								
Texas	0	10,649		10,649	7,849	(2,787)	0	
Utah								
Vermont								
Virginia								
Washington	29	5,417		5,446	5,232		214	
West Virginia								
Wisconsin	55	5,486		5,541	5,320	(168)	53	
Wyoming								
Total	698	78,578	(5)	79,272	74,358	(3,755)	1,146	1,423
Dist. of Col.								

NOTES TO A-4, FISCAL 1989

**Budget Stabilization Fund is included with ending balance.

*Notes: Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes at the end of the Appendix. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

ND: Expenditures represent 51 percent of biennial recommendation.

OR: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium, and 52 percent for the second year.

NOTES TO APPENDIX TABLES A-1, A-2, A-3, AND A-4

Explanation of General Fund Budget Adjustments

Alaska. Fiscal 1988 – Includes balance from Budget Stabilization Fund, excess earnings from the Permanent Fund, change in oil severance tax, and adoption of a personal income tax.

Alabama. Fiscal 1986 and 1987 – Funds taken out of the Special Educational Trust Fund to pay for trade school and junior college authority bonds and the administrative cost of the Revenue Department.

Arizona. Fiscal 1986 – Continuing appropriations of $34 million and restatement of capital projects to Capital Projects Fund.

Colorado. Fiscal 1986 – Transfer from Water Fund, $20 million; tax amnesty, $5.4 million. Fiscal 1987 and 1988 – Adjustments represent revenue gain anticipated as a result of federal tax reform.

Hawaii. Prior year's appropriation lapses.

Idaho. Most of the amounts shown represent a temporary sales tax increase which the governor is recommending to be made permanent.

Indiana. Fiscal 1986 – Auditors adjustments.

Iowa. Tax refunds.

Kansas. Represents reduced portion of sales tax dedicated to the Highway Fund.

Kentucky. Settlement of a fund transfer suit by the state Supreme Court.

Louisiana. Fiscal 1987 – Reflects transfers from several funds into the general fund as well as temporary changes in deductions.

Maine. Prior year's appropriation lapses.

Massachusetts. Accounts payable reversions.

Minnesota. Prior year adjustments and transfer from other funds.

Missouri. Prior year's appropriation lapses.

Nebraska. Lapse from excess cash funds.

Nevada. Amounts represent reversions, court settlements, and accounting adjustments.

New Jersey. Adjustments represent prior year and current year appropriation lapses, and not direct charges and credits to fund balance.

New Hampshire. Fiscal 1986 – Reversions from prior year's appropriations.

New Mexico. Fiscal 1986 and 1987 – Amounts represent non-reoccuring revenues; Fiscal 1988 – non-reoccuring revenues, $5 million, and governor's revenue proposal, $94 million.

North Carolina. Revenue figures include tax reduction package totalling Fiscal 1987, $135 million; Fiscal 1988, $177 million; Fiscal 1989, $203 million. Also revenue windfall from federal tax reform is included for Fiscal 1988 of $25 million.

Oklahoma. Fiscal 1986 – Decrease in cash flow needs to Fiscal 1987. Fiscal 1987 – Transfer of $20 million from other funds to general fund (requires legislation to be enacted).

Utah. Overhead allocation from transportation and restricted funds.

Vermont. Fiscal 1986 – Reversions and direct application, $2 million; recissions, $2 million. Fiscal 1987 – Reversions, $2 million; enhanced tax collection activity, $2 million. Fiscal 1988 – Reversions, $2 million; enhanced tax collection activity, $4 million; tax reduction, $2 million.

Virginia. Transfers from ABC enterprise fund and other non-general fund accounts as required by law.

Washington. Fiscal 1987 – Reversions, $58 million.

Explanation of Transfers In to/Out of the General Fund

California. Transfers from the general fund to repay previously borrowed funds from other state funds. Amounts transferred into the general fund have been mandated by legislation.

Colorado. Fiscal 1986 – Transfers from the general fund include Highway User Tax Fund, $51.7 million; other fund paybacks, $74.8 million; Fiscal 1987 – Highway User Tax Fund, $40 million, other fund paybacks, $21.7 million; Fiscal 1988 – Highway User Tax Fund, $50 million.

Connecticut. Fiscal 1986 – Transfer to Municipal Infrastructure Trust Fund, Revenue Sharing Account, $40 million; Transfer to Municipal Liability Trust Fund, $15 million; Miscellaneous Adjustments, $1 million. Reserved for – Transfer to Education Excellence Trust Fund, $100 million; Transfer to Municipal Infrastructure Trust Fund, $30 million; Transfer to Budget Reserve Fund, $16.2 million; Transfer to Municipal Solid Waste Recycling Trust Fund, $10 million; Transfer to Transfer Transportation Fund, $10 million; Town Improvement Grants, $33 million; and Debt Retirement, $50.9 million.

District of Columbia. Fiscal 1987 – GAAP adjustment, $46 million. Fiscal 1986, 1987, and 1988 represent transfers in of lottery revenue and transfers out to enterprise funds.

Florida. Transfers shown are between the general fund and the Working Capital Fund. It does not account entirely for the change in the Working Capital Fund balance due to resources deposited and expenditures made directly from this fund.

Illinois. Transfers out are the statutory percentages of income and sales tax receipts made to other funds and general obligation debt service. Transfers in include percentage of lottery sales and other reimbursements.

Indiana. Transfers to Property Tax Replacement Fund each year. Also in Fiscal 1989 – $42 million transferred to Rainy Day Fund.

Iowa. Transfers to the Iowa Economic Emergency Fund.

Kansas. Transfer of funds to hazardous waste clean-up, state emergency fund, County Reappraisal Fund, lottery operating fund, and adult care homes lawsuit settlement fund.

Kentucky. Transfer to the budget stabilization fund.

Maine. Transfers to operating and working capital reserve and contingent account.

Maryland. Transfers to Revenue Stabilization Account.

Massachusetts. Transfers to cover deficits in other funds and to pension reserves.

Michigan. Fiscal 1986 – Reserve appropriation for capital outlay, changes in other reserves, and $31 million transfer to budget stabilization fund.

Minnesota. Transfer to other funds such as debt service, trunk highways, and revolving funds, etc.

Nevada. Transfers from Fiscal 1987 appropriations to Fiscal 1986.

New York. Fiscal 1986 – Transfers to the general fund, $139 million; Transfers from the general fund to capital, $477 million; for debt service, $583 million; other, $138 million. Fiscal 1987 – Transfers to the general fund, $159 million; transfers from the general fund to capital, $636 million for debt service, $613 million; other, $69 million. Fiscal 1988 – Transfers to the general fund, $145 million; transfers from the general fund to capital, $390 million; for debt service, $742 million; other, $81 million.

North Dakota. Fiscal 1986 – Transfers from general fund to agency operating funds after the close of the biennium.

Oklahoma. Fiscal 1986 – Transfer to the Human Services Fund. Fiscal 1987 – Increased need in cash-flow to Fiscal 1988 (requires legislation).

Rhode Island. Fiscal 1986 – Intra-year recoveries, $1 million; transfer to reserve fund, $6 million. Fiscal 1987 – Intra-year recoveries, $1 million; transfer to reserve fund, $9 million; transfer to asset protection fund, $4 million. Fiscal 1988 – Transfer to reserve fund, $9 million; transfer to asset protection fund, $5 million.

South Carolina. Transfer to or from General Fund Reserve.

Utah. Flood account and transfers from capital projects to general fund.

Vermont. Fiscal 1986 – Transfer to transportation fund $2 million; transfer to Gramm-Rudman-Hollings Contingency Fund, $4 million. Fiscal 1987 – Transfer to special fund to retire bond issue, $4 million.

West Virginia. Fiscal 1987 – Transfer by legislation between fiscal years.

Wyoming. Fiscal 1987 – Transfer to Budget Reserve Account. Fiscal 1988 – Transfer from Budget Reserve Account.

Table A-5
YEAR-END BALANCES AS A PERCENT OF EXPENDITURES, FISCAL 1986 TO 1989

STATE	GENERAL FUND ENDING BALANCES				AS A PERCENT OF EXPENDITURES			
	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989
Alabama	9	1			0.3	0.0		
Alaska	(196)	(875)	52		-7.0	-36.7	2.8	
Arizona	(16)	5	19		-0.7	0.2	0.8	
Arkansas	0	0	0	0	0.0	0.0	0.0	0.0
California	686	561	1,040		2.4	1.8	3.3	
Colorado	4	130	323		0.2	6.6	15.1	
Connecticut	0	0	0		0.0	0.0	0.0	
Delaware	141	128	108		15.2	13.6	10.8	
Florida	186	0	0	202	2.7	0.0	0.0	2.2
Georgia	94	0	0		1.9	0.0	0.0	
Hawaii	137	112	113	126	8.6	6.5	6.2	6.6
Idaho	1	0	0		0.2	0.0	0.0	
Illinois	288	219	219		2.9	2.1	1.9	
Indiana	39	16	11	1	1.2	0.5	0.3	0.0
Iowa	0	0	0		0.0	0.0	0.0	
Kansas	20	52	129		1.1	3.0	6.9	
Kentucky	209	137	1		7.9	4.6	0.0	
Louisiana	(202)	8			-4.7	0.2		
Maine	10	0	6	2	1.1	0.0	0.5	0.2
Maryland	53	42	4		1.3	0.9	0.1	
Massachusetts	333	39	0		5.4	0.6	0.0	
Michigan	153	31	39		2.6	0.5	0.6	
Minnesota	370	179	40	266	7.6	3.4	0.7	4.9
Mississippi	52	31	0		3.4	2.1	0.0	
Missouri	110	0	0		3.6	0.0	0.0	
Montana	16	27	13	23	4.4	7.1	3.2	5.8
Nebraska	18	(10)	26	66	2.2	-1.1	3.0	7.5
Nevada	85	44	44	43	17.9	7.7	7.9	7.3
New Hampshire	32	26	24	15	6.8	5.4	4.6	2.8
New Jersey	521	448	195		6.0	4.9	2.0	
New Mexico	124	93	106		8.8	6.4	7.0	
New York	153	169	185		0.7	0.7	0.7	
North Carolina	319	178	180	0	6.4	3.3	3.2	0.0
North Dakota	109	1	(4)	11	20.8	0.2	-0.7	1.9
Ohio	458	32	47	63	4.8	0.3	0.4	0.6
Oklahoma	0	15	87		0.0	0.9	5.2	
Oregon	191	203	112	61	11.9	11.7	6.5	3.3
Pennsylvania	213	262	2	0	2.3	2.7	0.0	0.0
Rhode Island	52	45	19		5.0	4.0	1.6	
South Carolina	15	(6)	0		0.6	-0.2	0.0	
South Dakota	31	27	8		9.0	7.4	2.2	
Tennessee	144	75	75		5.5	2.5	2.5	
Texas	(231)	(1,030)	0	0	-2.8	-12.0	0.0	0.0
Utah	2	0	0		0.2	0.0	0.0	
Vermont	3	11	7		0.8	2.6	1.5	
Virginia	206	0	5		5.1	0.0	0.1	
Washington	1	107	29	214	0.0	2.3	0.6	4.1
West Virginia	112	0	0		7.0	0.0	0.0	
Wisconsin	237	102	55	53	4.9	2.0	1.0	1.0
Wyoming	106	0	35		25.0	0.0	11.5	
Total	5,398	1,635	3,354	1,146	2.6	0.8	1.5	1.5

Table A-6
BUDGET STABILIZATION FUNDS, FISCAL 1986 TO 1989

STATE	STABILIZATION FUND BALANCES				AS A PERCENT OF EXPENDITURES			
	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989
Alabama	0	0			0.0	0.0		
Alaska	436	436	0		15.6	18.3	0.0	
Arizona								
Arkansas								
California	**	**	**					
Colorado	**	**	**					
Connecticut	198	215	246		4.9	5.0	5.0	
Delaware	**	**	**					
Florida	131	82	523	880	1.9	1.1	6.2	9.8
Georgia	151	159	173		3.0	2.9	3.0	
Hawaii								
Idaho	0	0	0		0.0	0.0	0.0	
Illinois								
Indiana	145	164	169	211	4.6	5.0	5.0	5.9
Iowa	8	14	9		0.4	0.6	0.4	
Kansas								
Kentucky		25	50		0.0	0.8	1.5	
Louisiana								
Maine	10	16	8	8	1.1	1.5	0.7	0.7
Maryland	0	50	55		0.0	1.1	1.1	
Massachusetts	0	0	0		0.0	0.0	0.0	
Michigan	358	344	367		6.0	5.5	5.7	
Minnesota	**	**	**	**				
Mississippi	38	39	40		2.5	2.6	2.6	
Missouri	0	0	0		0.0	0.0	0.0	
Montana								
Nebraska	22	23	25	26	2.7	2.6	2.9	3.0
Nevada								
New Hampshire		25	26	27	0.0	5.2	4.9	5.0
New Jersey								
New Mexico	**	**	**					
New York	**	**	**					
North Carolina								
North Dakota								
Ohio	141	151	151	151	1.5	1.4	1.4	1.3
Oklahoma	0	0	0		0.0	0.0	0.0	
Oregon								
Pennsylvania	25	50	85	120	0.3	0.5	0.8	1.1
Rhode Island	10	19	28		1.0	1.7	2.3	
South Carolina	52	58	83		2.0	2.2	3.0	
South Dakota								
Tennessee	**	**	**					
Texas								
Utah		0	0		0.0	0.0	0.0	
Vermont								
Virginia	0	32	28		0.0	0.7	0.6	
Washington	0	0			0.0	0.0	0.0	0.0
West Virginia								
Wisconsin	0	0	0		0.0	0.0	0.0	0.0
Wyoming	105	137	111		24.8	34.1	36.5	
Total	1,830	2,039	2,177	1,423	0.9	0.9	1.0	1.9

**Budget stabilization fund is included with ending balance.

Table A-7
NOMINAL AND REAL ANNUAL CHANGES IN EXPENDITURES, FISCAL 1987 TO 1989

STATE	NOMINAL PERCENTAGE CHANGE Fiscal 1987	 Fiscal 1988	 Fiscal 1989	REAL PERCENTAGE CHANGE Fiscal 1987	 Fiscal 1988	 Fiscal 1989
Alabama	-8.4	n/a		-11.7	n/a	
Alaska	-14.6	-20.8		-17.7	-23.8	
Arizona	2.9	-0.5		-0.8	-4.3	
Arkansas	2.8	4.4	4.6	-0.9	0.4	0.5
California	7.1	1.2		3.2	-2.6	
Colorado	5.6	8.6		1.8	4.5	
Connecticut	8.3	13.3		4.3	9.0	
Delaware	1.1	6.6		-2.6	2.6	
Florida	13.8	8.5	6.4	9.7	4.4	2.2
Georgia	7.6	6.7		3.7	2.7	
Hawaii	7.7	6.1	3.6	3.8	2.1	-0.5
Idaho	4.8	8.9		1.0	4.8	
Illinois	3.8	9.7		0.1	5.6	
Indiana	4.8	3.2	5.6	1.0	-0.6	1.4
Iowa	1.4	12.0		-2.2	7.8	
Kansas	-0.6	7.4		-4.2	3.4	
Kentucky	11.3	11.4		7.3	7.3	
Louisiana	-8.1	n/a		-11.4	n/a	
Maine	9.8	7.5	8.8	5.8	3.5	4.6
Maryland	7.0	10.4		3.1	6.3	
Massachusetts	10.4	7.9		6.5	3.9	
Michigan	5.2	2.8		1.4	-1.0	
Minnesota	7.9	3.7	0.0	4.0	-0.2	-3.9
Mississippi	-0.3	2.3		-3.9	-1.5	
Missouri	9.3	9.4		5.3	5.3	
Montana	4.1	5.2	-0.5	0.3	1.3	-4.4
Nebraska	5.4	-1.5	1.6	1.6	-5.2	-2.4
Nevada	20.0	-2.3	5.9	15.7	-5.9	1.8
New Hampshire	3.2	8.7	3.4	-0.5	4.6	-0.6
New Jersey	4.5	8.2		0.7	4.2	
New Mexico	3.2	3.9		-0.6	0.0	
New York	7.6	7.7		3.7	3.6	
North Carolina	7.6	5.4	11.4	3.7	1.5	7.0
North Dakota	5.9	-1.8	4.0	2.1	-5.5	-0.1
Ohio	10.5	1.0	5.8	6.5	-2.8	1.7
Oklahoma	-19.6	2.4		-22.5	-1.4	
Oregon	8.3	-1.0	8.3	4.4	-4.7	4.1
Pennsylvania	3.8	6.2	4.0	0.1	2.2	-0.1
Rhode Island	6.6	6.8		2.7	2.8	
South Carolina	3.0	5.0		-0.7	1.1	
South Dakota	5.2	0.3		1.4	-3.5	
Tennessee	14.2	2.2		10.0	-1.6	
Texas	3.3	-26.6	24.9	-0.4	-29.4	20.0
Utah	0.5	6.9		-3.1	2.9	
Vermont	9.8	7.0		5.8	3.0	
Virginia	18.5	3.6		14.2	-0.3	
Washington	4.6	11.3	-0.6	0.8	7.1	-4.5
West Virginia	5.6	-4.1		1.8	-7.7	
Wisconsin	3.7	4.8	0.4	0.0	0.9	-3.5
Wyoming	-5.2	-24.4		-8.6	-27.2	
Total	5.8	3.9	6.3	1.9	0.0	2.2
Dist. of Col.	4.1	8.9		0.3	4.8	

Appendix Table A-8
PROPOSED STATE TAX CHANGES, 1987

Personal Income Tax Changes

(Does not include changes related to windfall/federal tax reform issue)

Alaska: Institute a personal income tax based on federal definitions of income, effective January 1988. Calendar Year 1988 = $250 million.

Arkansas: Adopt federal taxable income (without adopting federal personal exemption or standard deduction) as a starting point for tax computation. Currently, uses no federal starting point. Fiscal 1988 = $35.9 million.

Illinois: Increase rate from 2.5 percent to 3 percent, effective 7/87. Phase-in increase of personal exemption from $1,000 per person to $1,500 per person, effective January 1988.

New Mexico: Permanently repeal the food credit; selectively reinstate the medical rebate. Fiscal 1988 = $44.9 million.

New York: Reduce taxes by $1.7 billion to be phased-in by 1991. Part of tax windfall plan.

North Dakota: Increase rate from 14 percent of federal tax liability to 19 percent, effective January 1988. Fiscal 1988 = $61.5 million. Referendum to raise tax from 10.5 percent to 14 percent passed on March 18, 1987.

Corporate Income Tax/Business

Indiana: Enact several new tax credits or exemptions.

Massachusetts: Revise and target investment tax credit.

Minnesota: Reduce top rate from 12 percent to 8.9 percent, eliminate loss carrybacks, establish minimum tax, and eliminate special credits.

Nebraska: Change unitary formula to only sales (excludes property and employees); Fiscal 1988 loss of $7 million.

New Hampshire: Allow business profits tax to decrease from 8.25 percent to 8 percent effective July 1, 1987. Retain increase in real estate tranfer tax at $3.75 per $1,000 rather than $250 (is scheduled to drop).

North Dakota: Eliminate one-half of federal tax deduction, effective January 1, 1987. Fiscal 1988-89 = $9.1 million.

Oklahoma: Decrease rate from 5 percent to 4 percent. Fiscal 1988 loss of $20 million.

South Carolina: Enact tax credits for business for economic development purposes.

Washington: Eliminate business and occupation surtax of 7 percent and 10 percent.

West Virginia: Delay new business tax system scheduled for July 1, 1987. Gain Fiscal 1988 = $100 million.

Sales Tax Changes

Arizona: Decrease sales tax from 5 percent to 4 percent.

Arkansas: Extend sales tax to some services and other exempt items at a 2 percent rate. Extend 4 percent sales tax rate to cigarettes, tax out-of-state mail order firms and interstate phone calls.

Florida: Extend sales tax to most services and lower rate from 5 percent to 4.5 percent.

Idaho: Made temporary sales tax increase from 4 percent to 5 percent permanent. Was scheduled to expire July 1987. Fiscal 1988 = $61 million. Passed by legislature.

Illinois: Extend sales tax to most services and lower rate from 5 percent to 4.5 percent.

Indiana: Extend sales tax to most services and lower rate from 5 percent to 4.5 percent.

Minnesota: Eliminate some tax expenditures, such as non-profits, mail order sales, cable TV, interstate phone calls.

Montana: Proposing referendum for a 3 percent sales tax that would include services for the November 1988 ballot.

North Dakota: Raised sales tax in December 1986 from 4 percent to 5 percent but may be challanged by citizen initiative; currently suspended; may place issue on ballot. Fiscal 1988-1989 = $89.7 million. Extend sales tax to most services. Fiscal 1988-1989 = $43.2 million. Extend sales tax to electricity sales. Fiscal 1988-1989 = $19.9 million.

Oklahoma: Extend sales tax to most services and lower rate from 3.25 percent to 3 percent. Fiscal 1988 = $140 million.

South Dakota: Raised sales tax from 4 percent to 5 percent for one year, effective May 1987. Fiscal 1988 = $40 million. Repealed sales tax exemption for cigarettes. Passed by legislature.

Texas: Extend sales tax to most services and extend temporary sales tax increase of 5.25 percent for two years. Was scheduled to decrease to 4 1/8 percent effective September 1987.

Utah: Raised sales tax from 4.625 percent to 5.125 percent. Fiscal 1988 = $60 million. Passed legislature and signed into law.

Washington: Extend sales tax to most services and lower rate from 6.5 percent to 6 percent.

Cigarette Tax

District of Columbia: 13 cents to 17 cents per pack. Effective April 1987. Passed by Council.

Idaho: 9 cents to 18 cents per pack.

Indiana: 10.5 cents to 15 cents per pack.

Iowa: 26 cents to 36 cents per pack.

Minnesota: 23 cents to 38 cents per pack.

Nebraska: 23 cents to 27 cents per pack. Passed legislature.

North Dakota: 18 cents to 24 cents per pack. Passed by legislature. Effective July 1987.

Ohio: 14 cents to 19 cents per pack. Fiscal Year 1988 = $50 million.

South Dakota: 23 cents to 28 cents per pack.

Utah: 12 cents to 23 cents per pack. Fiscal 1988 = $7 million. Passed legislature.

Gasoline

Alaska: 8 cents to 16 cents per gallon.

Illinois: Increase from 13 cents to 22.5 cents per gallon over 5 years.

Iowa: 4 cents tax increase over two years; 2 cents per year. Gasoline now 16 cents per gallon, diesel now 18.5 cents.

Indiana: 14 cents to 19 cents per gallon.

Kansas: 11 cents to 16 cents per gallon and diesel from 13 cents to 18 cents per gallon.

Maryland: 13.5 to 18.5 cents per gallon. Fiscal 1988 = $117 million.

Mississippi: 9 cents to 18 cents per gallon by 1989. Also levy sales tax on gasoline. Passed legislature and overrode governor's veto.

Missouri: Referendum on April 7 to increase from 7 cents to 11 cents and increase registration fees.

Montana: Gasoline and diesel tax increase 17 cents to 20 cents per gallon.

New Jersey: 8 to 13 cents per gallon. Fiscal 1988 = $195 million.

New Mexico: 11 to 16 cents per gallon. Fiscal 1988 = $44.7 million.

North Dakota: 13 to 17 cents per gallon.

Oklahoma: 10 to 14 cents per gallon, effective March 1987. Fiscal 1988 = $126 million. Passed legislature.

Texas: Scheduled to decrease from 15 to 10 cents on August 31, 1987; extend for 2 more years.

Utah: 14 to 19 cents per gallon. Fiscal 1988 = $40 million. Passed legislature.

Wisconsin: Increase gasoline tax 2 cents. Now 17.5 cents; scheduled to increase to 18.4 cents April 1988 and would then increase to 20.4 cents April 1988.

Miscellaneous Taxes

Alaska: Maintain severance tax current rates; scheduled to drop in July = $125 million.

Arkansas: Increase insurance premium tax = $4.5 million. Increase natural gas severance tax, $4 million; Tax amnesty, $2 million. Tax light wine and light beer at full rate.

Florida: Increase insurance premium tax.

Indiana: Possible lottery referendum on 1988 ballot.

Kansas: Increase exemption for oil severance taxes, Fiscal 1988 lose $1.7 million.

Louisiana: Decrease homestead exemption.

Maryland: Increase registration fees 25 percent = $26 million in Fiscal Year 1988.

Michigan: Expand property tax circuitbreaker.

Minnesota: Property tax - reduce classes from 68 to 5. Repeal renters credit. Extend insurance premium tax to non-profit insurers.

Montana: Decrease coal severance tax from 30 percent to 25 percent as of July 1, 1988 and to 20 percent in July 1, 1990.

Nevada: Top bracket from 5.75 percent to 6 percent on large casinos gross receipts gaming taxes = $8 million first year. Maintain current insurance premium tax rates at 3 percent.

New Jersey: Increase reality transfer tax and use funds for environmental project. Repeal property tax credit and use for local governments.

New Mexico: Increase vehicle registration fees.

North Dakota: Decrease severance tax rates on oil and coal, Fiscal 1988-1989. Lose $16.3 million. Increase insurance premium tax effective January 1, 1987 = $5.5 million, biennium 1987-1989. Increase gaming tax to 2 percent of gross receipts. Citizen initiative to alter constitution for lottery.

Ohio: Tax interstate phone calls with 4.75 percent gross receipts = $50 million. Repeal sales tax exemption for aviation fuel = $5 million. Change part-year resident deduction to credit = $8 million. Repeal home improvements personal income credit = $10 million. Change method of taxing stockbrokers = $5 million. New tax enforcement programs = $33.8 million. Tax amnesty = $20 million.

Oregon: Adopt tax amnesty program.

Rhode Island: Decrease unemployment taxes.

South Carolina: Decrease fuel tax on airlines.

Utah: Increase motor vehicle fees = $7 million. Decrease property tax from 21.28 millss to 21 mills - lose $3 million.

Virginia: Freeze scheduled public utility rate reductions, $23.7 million in Fiscal 1988. Increase individual estimated payment percentages from 80 percent to 90 percent = $7.6 million. Lottery on ballot.

West Virginia: Enact new payroll tax to pay off unemployment taxes owed the federal government.

Wisconsin: Four year phase-out of inheritance tax.

Appendix Table A-9
FISCAL 1987 REVENUE COLLECTIONS COMPARED TO REVENUE PROJECTIONS USED IN FORMULATING BUDGET
(as of February 1987)

State and Region	Total Revenues	Sales Taxes	Individual Income Tax	Business Tax
New England				
Connecticut	A	A	--	A
Maine	A	A	A	A
Massachusetts	B	B	A	B
New Hampshire	A	--	--	A
Rhode Island	A	A	A	A
Vermont	A	A	A	A
Mideast				
Delaware	A	--	A	A
Maryland	A	A	T	B
New Jersey	A	A	A	B
New York	B	A	B	T
Pennsylvania	A	A	A	A
Great Lakes				
Illinois	T	T	T	T
Indiana	B	B	B	B
Michigan	T	T	T	T
Ohio	B	A	B	T
Wisconsin	B	T	B	B
Plains				
Iowa	A	A	B	A
Kansas	B	B	B	B
Minnesota	B	B	B	A
Missouri	B	B	T	T
Nebraska	A	A	A	A
North Dakota	B	B	B	A
South Dakota	T	B	--	--
Southeast				
Alabama	B	B	B	B
Arkansas	B	B	T	B
Florida	B	A	--	B
Georgia	T	T	T	T
Kentucky	B	B	B	B
Louisiana	B	B	B	B
Mississippi	A	B	A	A
North Carolina	T	T	T	T
South Carolina	B	T	T	B
Tennessee	T	T	--	T
Virginia	T	B	T	A
West Virginia	B	T	T	B
Southwest				
Arizona	B	B	B	B
New Mexico	T	T	T	A
Oklahoma	B	B	n.a.	--
Texas	B		--	
Rocky Mountain				
Colorado	B	B	B	B
Idaho	B	B	B	B
Montana	B	--	B	B
Utah	B	B	B	B
Wyoming	B	B	--	--
Far West				
California	B	B	T	B
Nevada	B	A	--	--
Oregon	A	--	A	A
Washington	B	--	--	--
Alaska	B	n.a.	--	--
Hawaii	A	A	B	A

Key:
T = revenue collections on target.
A = revenue collections above original projections.
B = revenue collections below original projections.

Appendix Table A-10
FISCAL 1988 STATE EMPLOYEE PROPOSED COMPENSATION PACKAGE*

State and Region	Across the Board	Merit	Other	Notes
New England				
Connecticut	5.0%	2.0%	1.7%	
Maine	n.a.			Employee negotiations.
Massachusetts	4.0		3.8-7.8	"Other" step increase for about 45% of workforce. Merit program begins this year.
New Hampshire	n.a.			Employee negotiations.
Rhode Island	5.5	0.0		
Vermont	3.0	0.1	3.6	
Mideast				
Delaware	3.0		5.0	"Other increase for approximately 2/3s of employees who are below mid-point of salary range. Effective January 1, 1988.
Maryland	2.5		2.0	"Other" increase for grade restructuring.
New Jersey	4.5		3.0	General increase effective October 1987.
New York	5.0-6.0	1.5-1.75		Varies by bargaining unit.
Pennsylvania	3.5			Those not at maximum step will get 4.5 percent annual increment.
Great Lakes				
Illinois	4.5	6.0	1.5	"Other" increase represents step increase. Union will receive 4.5 percent combined COLA, plus step increase.
Indiana	n.a.			Possible 2 percent general increase is being discussed.
Michigan	3.0-3.5			Varies by bargaining unit.
Ohio	4.0-5.0			Varies by bargaining unit.
Wisconsin	2.0			Distribution between ATB and merit unclear yet.
Plains				
Iowa	n.a.			Employee negotiations pending.
Kansas	1.5		1.6	
Minnesota	2.5			
Missouri	2.0	0.5		
Nebraska	0.0	3.0	0.0	
North Dakota	0.0	0.0	0.0	A 2 percent and $50 increase is proposed for Fiscal 1989.
South Dakota			3.0	Increase depends on employee's position in paygrade and performance. Separate component related to longevity.
Southeast				
Alabama		5.0		Merit (anniversary) raises based on evaluation of employee performance. Only 60 percent of workforce is eligible.
Arkansas	0.0	0.0	0.0	
Florida	n.a.			Employee negotiations pending.
Georgia	2.5	4.5		
Kentucky	5.0			A merit pool of funding is provided for in the budget.
Louisiana	0.0	1.2	0.0	Merit increase usually apply to first 10 years of employment.
Mississippi	0.0	0.0	0.0	
North Carolina	n.a.		4.5	Proposal pending.
South Carolina	3.0			Increase effective mid-fiscal year.
Tennessee	4.0			Implementation will be determined by legislatures.
Virginia	3.52	1.55		
West Virginia	5.0			
Southwest				
Arizona	0.0	0.0	0.0	
New Mexico	0.0	3.0		
Oklahoma	0.0	0.0	0.0	
Texas	0.0	0.0	0.0	Merit increases would come from agency budgets.
Rocky Mountain				
Colorado	4.8	5.0		General increase estimated pending salary survey. Merit increase eligible to all employees except those at the highest steps.
Idaho	5.0			
Montana	0.0	0.0	0.0	
Utah	1.5	3.0		
Wyoming	0.0	0.0	0.0	

Appendix Table A-10
FISCAL 1988 STATE EMPLOYEE PROPOSED COMPENSATION PACKAGE*
(Continued)

State and Region	Across the Board	Merit	Other	Notes
Far West				
California	3.0		0.3	General increase to begin January 1988. "Other" increase for health and dental rates. Merit increases are generally 5 percent and included in agency base budgets.
Nevada	0.0	2.5	5.0	"Other" increase for group insurance premiums. For general increase, if revenues increase more than projected, a COLA would be granted.
Oregon	2.0	0.0	0.0	Governor has proposed $10 million for undervalued jobs.
Washington	3.0			
Alaska	0.0			State is seeking a 15 percent reduction in employee salary and benefits.
Hawaii	n.a.			Employee negotiations pending.

**Excludes employees of schools and other educational institutions.

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